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Lessons Learned or Mistakes Repeated?  
IMF and the Greek Crisis

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Abstract:

The International Monetary Fund undoubtedly has a key role in the maintenance of the international financial system, especially during times of crisis. However, the IMF's actions have not escaped without criticism, especially during era of the Washington Consensus. After the difficulties caused by the conditionalities in the IMF programmes during the East Asian crisis of 1997-1998 the IMF started a process of reforms to ensure that its future programmes would prove more successful.

The purpose of this study is to find out whether the IMF learned its lessons the problems its programs faced during the Washington Consensus era and especially the East Asian crisis. This is done by first constructing a qualitative content analysis framework by examining both the criticism the IMF received and the reforms it initiated and by applying this framework to the minutes of the IMF executive board meeting that made the decisions to accept the Greek request for assistance during the Greece's sovereign debt crisis. By analysing the statement made by the IMF executive directors and staff I a view will be constructed on whether the lessons of the past were included in the IMF's 2010 decision making.

The findings of this study are that the IMF, as per the statements made during the executive board meeting, has only taken a limited amount of lessons to heart. In issues related to the ownership of the programme or protection of vulnerable groups the IMF seems to have made improvements. On the other hand, in the perhaps most criticized aspect of IMF's past programmes, that of promoting austerity policies, the IMF consensus opinions does not seem to have changed, which indeed proved detrimental to the success of the First Greek Economic Adjustment Programme.

*Key words: International Monetary Fund; Washington Consensus; East Asian financial crisis; Greece; Greek sovereign debt crisis.*

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## List of Abbreviations

AoA: Articles of Agreement
EBMM: Executive board meeting minutes
ECB: European Central Bank
EFF: Extended Fund Facility
EMU: The Economic and Monetary Union of the European Union
FCL: Flexible Credit Line
IMF: International Monetary Fund
LoI: Letter of Intent
OECD: The Organisation for Economic Co-operation and Development
PLL: Precautionary and Liquidity Line
RFI: Rapid Financing Instrument
SDR: Special Drawing Right
SGP: Stability and Growth Pact
USD: United States Dollar

## 1. Introduction

When I came into the Fund two years ago, two and a half years ago, one of my first decisions was to travel to Latin America, Africa, and Asia. It was done in the spring, summer, and fall 2000. And the outcome of this traveling exercise was that I heard a lot of criticism, and one criticism was, for instance, I spell IMF as SAD, meaning--what is SAD? Secretive, Arrogant, and Dominant. But at the end, this person [...] said, [...] we want you to stay engaged in Africa.

-Horst Köhler, Managing Director of the IMF (IMF 2002a).

The International Monetary Fund (IMF) has since its foundation in 1944 had the immense duty of maintaining the stability of the international monetary system, and by extension world trade by supporting its members, that include nearly all the countries in the world, by consultations and if need be financial assistance. To do this the IMF has been given significant resources of 667 billion United States dollars (USD) which it can use, with the approval of its members, to assist its member countries both in times of minor difficulty and of major crisis. The IMF's role in supporting its members has been of special importance since the early 1980s as, due to economic and financial globalization, ever larger number of countries, especially in developing world, have found themselves in need of IMF assistance (Boughton 1997, 16).

However, the critics of the IMF have identified a second role the IMF had been playing while it has worked to assist its members in need, that of spreading neoliberal economic ideas through conditionality of assistance, as countries in desperate need of financing have no other choice but to accept the conditions the IMF imposes (for example Peet 2009, Stiglitz 2002). In the late 1980s these neoliberal policies and their heralds, IMF included, came to be known as the critics of the policies as Washington Consensus. The culmination point of IMF as a part of the Washington Consensus came during the East Asian financial crisis that began in 1997, as several countries that had been considered economic successes but had instead of the neoliberal model followed interventionist models of economic development, fell into deep financial crisis, partly due to domestic mismanagement but for the most part due to the capriciousness of international capital flows. The policies IMF prescribed for the crisis countries, such as hard fiscal austerity and cuts to subsidies, were considered by many outside observers as counter-productive if not out-right harmful for the economic wellbeing of the countries in question (for example by Stiglitz 2002, Krugman 2009 and Radelet & Sachs 1998a, 1998b and many others).

During the first decade of the new millennium under the leadership of the new Managing Director Horst Köhler the IMF initiated number of reforms based on the experiences of the

previous decade (Best 2007, Buira 2003). These reforms included both changes to how the IMF structured its programmes, and to how power was divided in the IMF, especially between developed and developing members, with goals of both legitimacy and programme success.

The research question of this study is whether the IMF has taken any lessons from the errors identified by its critics during the Washington Consensus era<sup>1</sup> or from the subsequent reforms the IMF enacted. In this study I will concentrate especially on the East Asian case which, as described before, is the archetypical case of IMF's actions during the Washington Consensus era. To explore whether the IMF has learned any lessons from this period I will compare its 1990s *modus operandi* and reforms to its actions during the First Greek Economic Adjustment Programme of the Greek sovereign debt crisis. Specifically, I will do this by analysing the statements made by the IMF's most consequential decision-making body, the executive board, in the meeting during which the executive board decided to grant the Greek request for IMF support. Through this analysis I will explore what kind of attitudes and opinions the IMF executive directors had about the conditions that had been set on the Greeks for them to get access to IMF financing.

To answer the research question, I will compare the attitudes and opinions presented in the executive board meeting to a framework constructed from my research of the criticism and post-crisis reforms related to IMF's actions during the Washington Consensus era, especially in the case of the East Asian financial crisis. This framework is constructed using the method of concept-driven qualitative content analysis, a highly systematic method of describing qualitative data. While it is not possible to draw definite conclusions from the results of the analysis of this study due to the limitations in both the quantity and the quality of the material analysed, I do, by applying my framework of analysis to the minutes of the executive board meeting, reach the tentative conclusion that, although in some dimensions the IMF seems to have made improvements, it still has much to learn from the lessons of the Washington Consensus era.

There have been several studies that have, to some extent, considered the role IMF has played during the Greek Sovereign Debt Crisis, for example Bitzenis & Vlachos (2013), Meltzer (2011), Vlachos (2013) and Visvizi (2012). Most of these works have not singled out IMF as a single object of analysis but have analysed IMF's actions as part of the Troika,

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<sup>1</sup> The Washington Consensus era is, in this work, considered to have lasted from the International Debt Crisis of the early 1980s to the mishandling of numerous crises around the turn of the millennium in, for example, East Asia (1997), Russia (1998) and Argentina (2002).

the group consisting of the IMF, European Commission and European Central Bank (ECB), that cooperated in the managing of the Greek crisis. For example, Vlachos (2013, 198–201) reaches the conclusion that, while the Greek crisis is of Greek doing, the economic adjustment programme the Troika required of Greece would have small chances of success due to the stringent austerity measures included, measures that are very similar to the ones employed in East Asia. Meltzer (2011, 444), on the other hand, directs his criticism directly at the IMF. Meltzer writes that the structure of the IMF programme in Greece is such that failure is almost certain, and that the chief reason Greece, a country that is part of a currency union, is receiving IMF assistance is to lessen the economic burden on the European Union. A number of works have been published considering the question of what the IMF has learned since the Washington Consensus era, for example the books *Washington Consensus Reconsidered: Towards a New Global Governance* by Narcís Serra and Joseph Stiglitz (Eds., 2008) and the *Reforming the Governance of the IMF and the World Bank* by Ariel Buira (Ed., 2005). The authors of these books largely find that while some improvements were apparent the IMF still has significant amount of work to do to respond to all the criticism it had received previously. However, relating to the topic of an analysis of the Greek case through a lens of the Washington Consensus era and the East Asian case, the author of this work has not been able to identify any such studies.

Structure-wise this study is divided into seven chapters. In the first chapter, the introduction, I have described the outline of the study and some of the past research related to the topics I will cover during this study. In the second chapter I will examine the International Monetary Fund on a general level, beginning with a review of its history before the Washington Consensus era, followed by descriptions of how the IMF is governed and about the basics of its support programmes. This chapter is important for the understanding of the context of how the IMF developed into what it was criticized for during the Washington Consensus era, and for the reader to have sufficient understanding of the IMF operations later described in the work. In chapter three I will examine the Washington Consensus, beginning by the origins and original meaning of the term and followed by how the IMF acted during the era, with a special emphasis on IMF's actions during the East Asian crisis and the subsequent criticism and reforms. This chapter will create the historical point of comparison to the IMF's actions during the Greek crisis, and will in-fact contain the information on what the IMF "should had learned" and what reforms the IMF has initiated.

In chapter four I will move to a description of the subject of analysis of this study, the Greek Sovereign Debt Crisis. I will both examine the causes of the crisis and the role IMF had in

its early stages. This description is, however, limited temporally to until around the time the IMF accepted the Greek request for assistance, as the following developments are not within the scope of this study. In the fifth chapter of this study I will describe the method and research material for the work. In particular, I will present how, through a concept-driven qualitative content analysis, I can build a framework with which I will analyse the executive board meeting minutes for the Greek request for support through the lens of the criticism IMF received and the reforms it enacted in the aftermath of the East Asian crisis. In chapter six I will apply this framework, first by describing the information extracted from the material through the framework, and then by analysing these results in comparison to the post-East Asian crisis criticism and reforms. Finally, in chapter seven I will present the conclusions of this work, and attempt to answer the question of whether the IMF learned lessons from its past mistakes.



## 2. The International Monetary Fund

The International Monetary Fund is a cooperative international organization of 189 countries and one of the organizations designated by the United Nations as a “Specialized Agency.”<sup>2</sup> The members are the shareholders of the IMF, providing IMF its funding in their payment quotas and participating in its decision-making in accordance to the size of their individual quotas (Fritz-Krockow & Ramlogan 2007, 1). Countries join the IMF to receive macroeconomic policy advice, technical assistance, and financing during times economic crises including acute balance of payment disequilibrium (ibid.).

While the specific details of the IMF’s activities have changed due to the changes in the international economic environment, the official purpose of the IMF, as stated in Article I of the Articles on Agreement (AoA), the IMF’s guiding document, on which “the Fund shall be guided in all its policies and decisions”, has remained the same from its founding in 1944 (United Nations Monetary and Financial Conference 1944) to the latest iteration of the Articles of Agreement in 2016 (IMF 2016a). These purposes, stated in the Article I of the AoA are (1) promotion of international monetary cooperation; (2) facilitation of expansion and growth of balanced international trade; (3) promotion and maintenance of exchange rate stability and orderly exchange arrangements and work on preventing competitive depreciations; (4) assistance in creation of multilateral system of currency account payments; (5) provision of temporary resources under safeguard to members to assist them in correcting balance of payment maladjustments without measures destructive on national or international level and (6) shortening of duration and lessening the degree of balance of payment disequilibria.

In this chapter I will continue by describing the historical reasons for the founding of the IMF and its history during the Bretton Woods system that operated until the early 1970s and was followed by the Washington Consensus system. I will continue with a brief description of how the IMF operates presently and about the kind of support programmes the IMF utilizes.<sup>3</sup>

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<sup>2</sup> “The UN specialized agencies are autonomous organizations working with the United Nations.” Besides IMF organizations such as ILO, WHO, UNESCO and the World Bank are UN specialized agencies (UN 2018).

<sup>3</sup> This consideration excludes some interesting aspects of the Fund, such as an in-depth consideration of how the Fund surveys its member states or its operations in assisting the least developed countries, as these questions are not within the purview of this study.

## 2.1. The IMF and the Bretton Woods System

The basis for the founding of the IMF was in the dichotomy between the relative stability of the gold standard system in the pre-WW1 period and the chaos of the interwar era, especially after the beginning of the Great Depression. The gold standard, a monetary system in which the value of a currency is fixed to an amount of gold, had appeared to guarantee significant amount stability in the decades preceding the First World War, and had thus facilitated significant growth in international trade and finance during the period (Eichengreen 1995, 29). After the economic disorder caused by the First World War the major economies returned to gold standard in an attempt to return to the status quo (Bordo 1993, 28). However, the economic after-effects of the war, especially the collapse of world trade, the indebtedness of Western European countries and German reparations put the new economic order under significant strain (Bordo 1993, 28–30; Eichengreen 1995, 222–224). The global reaction to the Great Depression, which began in 1929 in the world's dominant economy, the US, and spread around the globe, caused the final collapse of the interwar economic system. Countries responded to the Great Depression with multiple competitive devaluation and increased barriers to trade and these combined with failures in domestic policy strangled world trade and economic growth and lead to all major economies exiting the gold standard by 1937 (Eichengreen 1995, 298–316, 377–382).

There have been various considerations by economists and historians about the causes of the relative stability of the gold standard system and the collapse of the interwar economic system. Two important contributions on this topic are the works of Charles P. Kindleberg (1973) and Barry Eichengreen (1995). Kindleberg saw the role the United Kingdom played as international economic hegemon willing and able to employ its resources to maintain the system as the key to the stability of the pre-1914 system. After the war the United Kingdom was unable to fill the role, while the new hegemon, United States, was unwilling. Eichengreen, on the other hand, presents that a combination of the credibility of the pre-1914 gold standard and the cooperation between major central banks were the primary reasons for the stability in the pre-war era. After the First World War the cooperation between European central banks and the newly founded Federal Reserve in the US never found a similar concert and the central banks were no longer seen as credible due to political interventions. While these two views differ in many aspects, one common point they share is the need for the active maintenance of a successful system, either by a hegemon, or by cooperation, something the creators of the IMF agreed with.

The International Monetary Fund was founded in 1945 as part of the Bretton Woods Agreement of 1944, with its sister institutions of General Agreement on Trade and Tariffs (later World Trade Organization) and the World Bank. The impetus for the foundation of the IMF was an attempt to create a post-war system that would guarantee peace and fix the defects of the interwar economic system, the breakdown of which in the aftermath of the Great Depression had a significant role in the leadup to the Second World War (Bordo 1993, 31–32). The original purpose of the IMF was to prevent the competitive devaluations and beggar-thy-neighbour policies that had caused significant harm in the interwar period by facilitating a system of stable exchange rates and by working to prevent short-term balance-of-payment problems (Peet 2009, 75–76). To do this they set up a system of adjustably pegged exchange rates supported by an institution that could provide short-term financing for countries experiencing short-term balance of payment disequilibria (Bordo 1993, 5).

The principal countries planning the post-war economic order were the UK and the US, the major unoccupied western allied countries. The UK delegation was led by one of the most celebrated economists of the 20<sup>th</sup> century, John Maynard Keynes, while the US team was led by the economist Harry D. White. During these negotiations both parties published their own proposals, the Keynes and the White plans, in 1943. The Keynes plan was based on a supranational central bank, with significant resources of 26 to 30 billion USD, 75% of pre-war world trade, with annual increases, and with the primary purpose of economic growth via provision of international liquidity (Bordo 1993, 32–33; Boughton 2002, 16–17). The White plan was based on a United Nations Stabilization Fund, with resources of 5 billion USD, with the purpose of securing exchange rate stability (Bordo 1993, 33; Boughton 2002, 16–17). According to the Keynes plan the members would have been allowed to borrow their quotas freely, with added interest rates for overdrafting, while in the White plan any funding would include conditions (Bordo 1993, 32–33). The Keynes plan included rules to fix international imbalances with the debtor countries having to impose capital controls or devalue their currencies while the lender countries were expected to revalue their currencies, expand domestic credit, cut tariffs and extend international development loans, while in the White plan only the debtors were expected to correct economic imbalances in exchange of access to funding (Bordo 1993, 32–33). The bilateral negotiations reached an end in April 1944 with a compromise predominantly based on the White plan due to the stronger position of the US. The British gave up, for example, the supranational central bank, generous liquidity support and the possibility of overdrafting and the budget was to be limited to 8 billion USD, with possibility for an increase quinquennially (Bordo 1993, 34). On the other

hand, the Americans gave up explicit conditionality for access to the fund, and the members retained more economic policy autonomy, including the possibility for minor exchange rate movements (*ibid.*).

In July 1944 the treaty on the IMF, the Articles of Agreement, was signed by 44 countries and entered into force in December 1945, with the contents largely based on the US-UK agreement. The primary goals set for the new organization, that mirrored the issues of the interwar period, were maintenance of international monetary cooperation, facilitation of economic growth and full employment, maintenance of stable exchange rates and avoidance of competitive devaluations, provision of multilateral payments system, elimination of exchange rate restrictions and provision of resources to handle balance-of-payment disequilibria (Bordo 1993, 34–35). To maintain stable exchange rates the IMF system was based around gold and the USD, the only currency with a par value set to gold (*ibid.*). All members were to set new par values and to maintain them within a range of one percent, though members could, after consulting the IMF, set a new par value within 10% of the previous one (*ibid.*). To facilitate multilateral payments all members were required to make their currencies freely convertible (*ibid.*). To combat balance of payments disequilibria the IMF had resources of 8.8 billion USD, 25% in gold and rest in various currencies, with an option to raise the amount every five years (*ibid.*). The IMF would set conditions on countries borrowing above the first two tranches of their quotas but overall its power over national economic policies was weaker than in the US-British compromise (*ibid.*). The IMF was to be governed by board of governors chosen by member states, with voting rights equivalent to the number of quotas each governor represented (*ibid.*).

The Bretton Woods system of regulated exchange rates lasted from the foundation of the IMF to 1971, when USA, the linchpin of the system, suspended the dollar to gold convertibility due to devaluationary pressure caused by weakening trade balance and a fundamental disequilibrium in the gold-to-dollar parity (Bordo 1993, 79–80; Peet 2009, 78–79). The period between the establishment and the collapse of the Bretton Woods system can be roughly divided into three periods, these being the immediate post-war era of systemic stabilization until the late 1950s, during which the IMF rules were incrementally implemented in the member countries, the peak of the system, from the late 1950 to late 1960s, when the system operated largely as intended and the gradual collapse of the system beginning in the late 1960s.

In the early years the IMF's role was limited due to the post-war economic slump and the larger role the Marshall plan and International Bank for Reconstruction and Development

(later part of the World Bank) played in the rebuilding process (de Vries 1986, 218). IMF, however, did feel the need to face three issues, the use of multiple exchange rates, the par values for currencies and the re-establishment of currency convertibility. Multiple exchange rates had been used in a damaging manner in the 1930s but by the IMF judgement the post-war use was acceptable during the rebuilding process (de Vries 1986, 21–23). With the post-war economic advancements, the use of multiple rates disappeared by the late 1950s (de Vries, 25–26).

The IMF also pushed its members to quickly set par values and by the end of 1946 most had, mostly at the pre-war rates. The IMF did not believe that these rates indicated realistic values, but believed that setting of rates was necessary to restart the system (Bordo 1993, 39). Initially the par value system had some challenges, with various countries either abandoning their par values or changing them without the IMF approval, but by the early 1960s the system was largely operational (Bordo 1993, 44–50; de Vries 44–47).

In the aftermath of the war the USD was the only fully convertible currency. All other industrialized IMF members had controls on their exchange rates, as was allowed in the IMF rules on temporary bases, and made bilateral agreements on trade to try and rebuild their ruined industries (de Vries 1986, 31). The Marshall plan, initiated in 1948, did much to help European countries by supplying Europe with 13 billion USD in aid (Bordo 1993, 41). The US aid combined with the European Payments Union, founded in 1950 to facilitate trade, led to the sufficient strengthening of the Western European economics that full convertibility could be established by the end of 1950s (Bordo 1993, 42–43).

In the first decade of its existence the IMF's loaning activities were relatively minor and mostly concentrated on assisting its members in re-establishing convertibility, averaging at around 135 million USD a year (Boughton 1997, 11). In 1956 the IMF was for the first time put into international limelight when all the parties to the Suez Crisis drew resources from the IMF to finance the balance of payment difficulties that the nationalization and temporary closing of the Suez Canal and the subsequent military actions caused (ibid. 10–12). All in all, during 1956–57 IMF members withdrew 1.7 billion USD of IMF resources, over 12 times the average of preceding decade, with 59% of the withdrawals being by parties to the Suez Crisis, with the largest borrower being the UK that obtained 561.5 million USD with an approval of additional 738.5 million USD in an unconditional one-year SBA partially in deference to its role as the IMF's co-founded. The crisis had an important role in demonstrating the IMF's capabilities as a lender to its members in economic distress and led to increased lending afterwards (ibid. 12).

By the early 1960s the system of exchange rates set to a par value of gold with full currency convertibility was relatively stable. This system, however, was significantly different from what the architects of the IMF had intended, riddled with issues that would prove its undoing. The two primary differences were the overwhelming role of the USD and the evolution of the exchange rate system from adjustable pegs to one of fixed pegs. The plan had been to build a system where all currencies would have been equal, with their par values set to gold (Bordo 1993, 49). However, the USD ended up being the only currency convertible to gold, and thus became the preeminent currency in the system (ibid.). The readjustments of the pegs, which is necessary to correct trade imbalances, was supposed to be a key part of the system, but was rarely used due to fears of loss of prestige, fears of competitive devaluations and the risks of speculative capital flows (ibid. 50). Thus, the system ended up being based on a fixed rate of a limited unit, with the dollar taking the place of gold.

The challenges of the 1960s were readily admitted by the authorities of the time, especially in relation to liquidity, adjustments and confidence. Maintenance of liquidity is important to avoid disturbances in international trade and to allow time to adjust imbalances of trade. The issue in the 1950s was that the sources of international liquidity, gold and USD, were insufficient to finance the growth of world trade and economies (Bordo 1993, 50). To combat this issue the IMF members decided upon creation of a new international reserve currency in 1969, the Special Drawing Right (SDR), which could be used to finance balance of payment deficits. The issues with adjustments related largely to the imbalances in trade between the major economies (ibid. 51–57). Throughout the 1950s the UK was underperforming economically and the par value of the pound sterling became overvalued, while Germany was outperforming its peers and racking up reserves. The US also had constant balance of payment deficits as it exported gigantic amounts of capital to the rest of the world and especially to Europe. The question about dollar to gold convertibility created a problem with confidence during the period with significant amount of scepticism about whether the US would be able to convert the dollars in circulation into gold as the growth of the monetary gold stock kept the money creation in the United States (ibid. 59–60). In 1960 the confidence was shaken as expectations of inflation in the US increased the price of gold in London above the par value set by the US (ibid. 59). To combat this threat to the par value the London Gold Pool was formed in 1961 by significant western economies to stabilize the price of gold by selling and buying it at the par value (ibid.).

The collapse of the gold pool in 1968 was one of the first indicators showing that the Bretton Woods system was coming to an end. Due to the small increase in the supply of gold

compared to the growth of world economy during the 1960s, and as investors expected the US to devalue its currency after the UK devaluation in 1967, gold's market price grew above the par value and the gold pool began haemorrhaging gold and had to be closed (Bordo 1993, 70–71). The USA's economic position kept deteriorating in the late 1960s due to the inflationary pressures caused by the Vietnam War and Lyndon B. Johnson's ambitious social programmes and in 1971 US balance of trade dipped into deficit for the first time, which led to increasing support in the US for the devaluation of the dollar (ibid. 75–76). The final impetus for ending the dollar to gold convertibility were the French and British intentions to convert their dollar holdings into gold which would have put untenable pressure on the par value (ibid. 79–80). Thus, on August 15, 1971 president Richard Nixon announced that the dollar to gold convertibility, the core of the Bretton Woods system, would be “temporarily suspended”, which ended up being a permanent state of affairs, as following multiple rounds of negotiations that lasted until 1974 no viable way of restoring the gold par could be found (Bordo 1993, 79–80; Peet 2009, 78–79). While the collapse of the gold par system was a significant change in the global economic system it did not cause immediate economic crises, as from 1973 onwards most countries were insulated from the initial exchange rate changes due to floating their currencies against USD and thus the IMF's role in the collapse was limited (Boughton 1997, 14–15). Following the end of the gold par system the IMF amended its rules and officially decided in 1978 that IMF members would be free to pick their exchange rate regimes (de Vries, 1986, 117–118).

The end of the Bretton Woods system led to an inevitable change in the role of the IMF in the international economic order, as its pre-1970s mandate had largely concentrated on the maintenance of the gold par system (de Vries 1986, 118). As the Bretton Woods system was coming to an end another concurrent change was happening in the international economic environment, one that would again catapult IMF into a key position in the maintenance of the international economic order in the decades to come. The first oil shock in 1973 led to an immense global balance of payment imbalances that affected different parts of the world in highly diverse manners. Most of the oil producing countries started to produce gigantic surpluses while most developed countries could weather the storm due to their strong economies and due to the increases in demand for their high technology products in the newly affluent oil producing countries while most non-oil producing developing countries faced significant deficits (Peet 2009, 82–83). The IMF's new role in this situation was related to transferring financing from the surplus countries, through Stand-By Arrangements (SBA) and temporary oil funds, to the deficit countries to allow the deficit countries to purchase oil

at the higher market prices (Peet 2009, 82–83; de Vries 1986, 118–119). Private financial institutions, though, played a much more important role by lending out the financial inflows from the oil producers to the developing world, which led to the volume of international commercial bank lending tripling between 1973 and 1978 (Boughton 1997, 15). During the Bretton Wood-era the IMF had maintained a healthy distance from private financial institutions but due to the expansion in international credit the IMF was forced to take these institutions into consideration, for example by making sure their members receiving IMF financing would not default on their loans, a process that during the 1980s Latin American debt crisis would lead to a very close cooperation between the IMF and the banks (Babb & Buira 2004, 8–9). During this period the system faced relatively few crises, as commodity prices, on which most developing countries' economies rely on, were also experiencing a cyclical boom (Boughton 1997, 15). However, the increased indebtedness in the developing world would create a fertile ground for the coming debt crisis, which would catapult the IMF into greater relevance and begin the era of the Washington Consensus.

## 2.2. Governance of the IMF

The highest decision-making body of the IMF is the board of governors. The board consists of a governor and an alternative from each of IMF's member countries, who are usually ministers of finance or central bank directors (Fritz-Krockow & Ramlogan 2007, 70). Because the board of governors meets generally only once a year, most of the day-to-day decision making in the IMF has been delegated to the executive board that is chosen by the board of governors. Nevertheless, the board retains power on some of the most important institutional issues for the IMF, such as changes in the amount and distribution of the quotas, amendments to the Articles of Agreement and the issues of accepting new members or forcible withdrawing a member's memberships.

While the board of governors is the actor highest in the IMF hierarchy it is the executive board that makes most of the operational decisions and can thus be considered to possess the most practical power. The executive board has 24 members, known as executive directors, chosen by members or groups of members in relation to the number of quotas they hold. As of 2016 the IMF's eight largest shareholders<sup>4</sup> have had their own directors on the board while other members have formed groups to elect a director. The voting power of a director is dependent on the amount of IMF quotas held by those who elected them. The board meets

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<sup>4</sup> These being in order of voting power: United States, Japan, China, Germany, United Kingdom, France, Russia and Saudi Arabia.



when necessary, on average thrice a week, and most of its time is spent on consideration of issues related to the world economy and the international monetary system while of secondary importance are matters related to administrating the IMF, such as decisions on the budget (Fritz-Krockow & Ramlogan 2007, 72–73). A key responsibility of the board in IMF crisis management is the decision on whether to accept a member's request for an arrangement, the financial support programme for the IMF members (ibid. 21).

The executive board also selects the managing director of the IMF, the face of the organization and the day-to-day manager of the organization, for five-year terms. The managing directors has so far been chosen by a “gentlemen's agreement” from one of the European members of the IMF<sup>5</sup> (Peet 2009, 69). The managing director appoints the first deputy managing director and two deputy managing directors to assist himself in managing the organization. The managing director while not having a vote in the executive board is the board's chairperson. The managing director has been since 2011 Christine Lagarde of France, following Dominic Strauss-Kahn who served 2007–2011. Historically the managing directors have had important roles in management of financial crises, such as how then managing director Michele Camdessus (as director 1987–2000) personally led an effort to gather private funding for Mexico during the 1994 Mexican peso crisis (Boughton 2012, 475–480).

The voting in the IMF, according to the Articles of Agreement (IMF 2016a) is in generally done by a single majority but with significant amount of exceptions. Some of these exceptions in combination with the large amount of voting share held by US and other developed countries has in past lead to criticism of these countries holding an effective veto over significant amount of decisions (see for example Babb 2007, 142–143; Peet 2009 78). This has been rectified to some extent in the latest reforms to the IMF's decision making and quota distribution (IMF 2008a and IMF 2010a). For the board of governors to reach quorum over half of the governors representing at least 2/3<sup>rd</sup> of the voting power must be present. Some of the decisions in the board of governors in which a supermajority is required are for example the amendments to the AoA that require the support of 3/5<sup>th</sup> of the governors with 85% of the voting share, to amend the number of quotas requires 70% of the voting share and half of the governors in agreement<sup>6</sup> and to withdraw forcible withdraw a country's membership requires 50% of governors with 85% of the vote requirement (Fritz-Krockow & Ramlogan 2007, 6, 75). For the executive board to reach quorum half of its members

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<sup>5</sup> In exchange the United States has gotten the position of the president of the World Bank (Peet 2009, 69).

<sup>6</sup> Before the 2010 reform the requirement was voting share of 85%.

holding half of the voting share need to be present, and its decisions are generally made with the support of directors holding at least 50% of the total voting share (ibid. 75).

Both most of the voting power of the IMF's members<sup>7</sup> and the IMF's direct financial resources are dependent on the quotas that are expressed in Special Drawing Rights, the IMF's unit of reserve currency created in 1969. The quotas are divided between members by use of a formula. As per the IMF (IMF 2016b):

The current quota formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). For this purpose, GDP is measured through a blend of GDP—based on market exchange rates (weight of 60 percent) and on PPP exchange rates (40 percent). The formula also includes a “compression factor” that reduces the dispersion in calculated quota shares across members.

The decision on whether to increase the aggregate number of quotas has generally happened on five-year intervals and has led to increases in the number of quotas as the world economy has grown or as other changes in the economic environment have necessitated increases. Generally, the quotas have been increased in a fashion that has maintained the relative distribution and thus have not disturbed the balance of power in the organization but after the reforms agreed upon in 2008 and 2010 the relative power of developing countries was increased compared to developed members. After these reforms 6% of the quota shares shifted from primarily developed countries and rich oil producers to dynamic developing countries, with 110 of the then 187 members receiving increased shares (IMF 2010a). Nevertheless, the United States maintains by itself a veto on many important decisions, such as amendments to the AoA, by having more than 15% of the IMF's quotas, while advanced economies together continue holding a simple majority.

### 2.3. The Nature of IMF Programmes

One of the key purposes of the IMF is to provide its members with financial support in specific circumstances, as per the Article I of the Articles of Agreement:

Article I: (v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

The IMF's resources for supporting its members come from three primary sources (Fritz-Krockow & Ramlogan 2007, 19–20). The most basic source and the one most frequently

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<sup>7</sup> Currently, since the 2008 reforms, 5.502% of voting power in the IMF is represented in Basic Votes that are divided equally between all members while the rest of the voting power is dependent on the quota distribution (IMF 2017a).

used is the quotas assigned to each member, which every member pays up to 25% in an international reserve currency, such as the USD or the Euro, and rest in their national currency. The quota-based resources are held in the IMF's general resources account from which any member can request loans. The number of quotas for each country are based on a model that attempts to measure the country's relative economic importance in the world. The second source of funding is via sales of the gold that the IMF still holds.<sup>8</sup> The third source for funds are direct lines of credit from the finance ministries or central banks of significant IMF members that the IMF can draw on if it needs extra resources.

In general terms IMF's quota based arrangements work through a swap agreement. The country in need of financial support sells its domestic currency to the IMF according to its credit tranches and receives an equivalent amount of one of the IMF's reserve currencies. The credit tranches are divided into two parts, the first tranche responding to the amount of international reserve currency the country has deposited into the IMF, generally 25%, which any country can withdraw, or purchase as per the IMF terminology,<sup>9</sup> at any time without conditions, and the upper tranches that require conditions and specific IMF approval to access (Fritz-Krockow & Ramlogan 2007, 30–31). To access the upper tranches the authorities of a country need to submit a Letter of Intent (LoI), that is based on the bilateral consultations between the IMF and domestic authorities, to the managing director, often alongside more detailed documents (Fritz-Krockow & Ramlogan 2007, 23).<sup>10</sup> The documents submitted by the country requesting the assistance alongside document prepared by the IMF to evaluate the country's proposals will be submitted to the executive board for the basis of its decision.

The IMF funding is channelled through arrangements, executive board decisions assuring a member that it will get access to the upper credit tranches as per the agreement between the IMF staff and the counterparties in the country in question (Fritz-Krockow & Ramlogan 2007, 21). While the AoA itself does not specify the forms of the arrangements and facilities through which this financial support is to be directed, the IMF has over the years developed multiple arrangements.<sup>11</sup> The most basic and most frequently used arrangement is the Stand-

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<sup>8</sup> 100 million ounces in 2007 before the Financial Crises (Fritz-Krockow & Ramlogan 2007, 20), currently (as of October 2017) 90.5 million ounces (IMF 2017b).

<sup>9</sup> In IMF terminology, non-concessional lending operations are referred to as "purchases" and concessional ones, mostly to developing countries, as "disbursements" (Fritz-Krockow & Ramlogan 2007, 21).

<sup>10</sup> Such as the Memorandum on Economic and Financial Policies and Technical Memorandum of Understanding (Fritz-Krockow & Ramlogan 2007, 23).

<sup>11</sup> In this review, I will only address the programmes that are aimed at the more developed members for the purposes of financial crisis and that existed at the onset of the 2010 First Greek Economic Adjustment Programme. This will omit programmes, such as Poverty Reduction and Growth Trust, that are meant for low-

By Arrangement (SBA), through which members can gain access to the upper credit tranches on short-term basis, and which is the arrangement the countries covered in this study have most frequently relied on. The SBA generally lasts for 12-18 months, but can last up to three years, with quarterly purchases of credit from the IMF, as long as the country follows through with the conditions of the arrangement. At the time of the Greek financial crisis the purchases of credit were limited to 100% of the country's quota per year up to maximum of 300% in total.<sup>12</sup> However, the IMF has a set of criteria through which a country can gain access to financing far above its quotas during an SBA, by the name of exceptional access criteria. If a country fulfils four criteria, these being the country facing an exceptional balance of payment imbalance, having a sustainable public debt in medium term, having a prospect of gaining access to private funding during the programme, and the programme having a reasonable chance of success, the country may gain access to credit significantly in excess of the official limits, as happened with both the East Asian countries covered in this work and with Greece, which received 3212% of its quota in the 2010 SBA (Takagi 2016, 18).

Extended Fund Facility (EFF) is the second major IMF programme, meant for medium-term support.<sup>13</sup> The EFF is meant for countries with more severe systemic troubles than just temporary balance of payment deficits, and that will thus need a longer time-horizon to implement the necessary reforms. The usual period for the EFF is three years but this can be extended to up to four years. At the time of the Greek crisis the purchase limits for the EFF were same as the SBA limits and they were raised alongside the SBA limits in 2016. As the SBA and the EFF are decades old arrangements, established in 1952 and 1974 respectively, the IMF felt the need to establish more flexible and faster instruments after the beginning of the latest financial crisis (Fritz-Krockow & Ramlogan 2007, 32). For developed countries these are the Flexible Credit Line (FCL) and Precautionary and Liquidity Line (PLL), both from 2009 (IMF 2009a) and the Rapid Financing Instrument (RFI) in 2011 (IMF 2011). Both the FCL and PLL are meant for countries with sound economic policies and a good track records and with the same cost structure as the SBA's. The FCL provides countries with strong policy frameworks an ongoing access to financing with no on-going conditionalities and no set limits for funding for the duration of one to two years while the PLL is for more vulnerable members that cannot gain access to the FCL but otherwise works on the same

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income members, and the Rapid Financing Instrument which is meant for countries in balance of payment problems caused by non-economic crises, such as conflicts and natural disasters.

<sup>12</sup> After passing of the 14<sup>th</sup> Quota Review in 2016 the amounts were increased to 145% per year and up to 435% of the quota.

<sup>13</sup> The Second Greek Economic Adjustment Programme, that is not covered in this work, was based on an EFF.

logic, lasting for one to two years with 250% of the quota available per year (IMF 2017c, 2017d). The RFI on the other hand is for rapid assistance for countries in trouble with their balances of payment, for a relative small amount of 37.5% of the quota per year (IMF 2017e).

Conditionality plays a significant role in most IMF financing arrangements and is related to the key part of the criticism that has been directed towards the IMF. There are two primary purposes for the IMF to set conditions on its members, first the IMF needs to be sure that it will get back what it has lent and second the IMF wishes for its member to be able to resolve the underlying reasons causing the economic difficulties (Fritz-Krockow & Ramlogan 2007, 25). The key principles of a set of conditions that form the programme are national ownership of the programme, parsimony of conditions, tailoring the programme to national circumstances, effective multilateral coordination and clarity of conditions. There are four primary forms the conditionality can take these the being prior actions of the country, the policy measures the country needs to adopt before it can start receiving financing, the quantitative performance criteria, which are clearly set objective variables for the country to follow for it to continue receiving, the indicative targets, sets of indicators that are not as reliable as the quantitative performance criteria, and structural benchmarks which are objectives for changes in the economic structure (Fritz-Krockow & Ramlogan 2007, 26; IMF 2017f).

### 3. The IMF and the Washington Consensus

The Washington Consensus generally refers to the economic reform agenda that the key economic institutions situated in Washington, the IMF, the World Bank and the US Treasury proposed for, or imposed on, developing countries in economic turmoil from the early 1980s to the turn of the millennium. As per Serra, Spiegel and Stiglitz (2008, 3), the contemporary view of the Washington Consensus is as follows:

The current interpretation [of the Washington Consensus] is narrower [than the original] in that it focuses primarily on privatization, liberalization, and macro stability—meaning price stability; it is broader in that it includes some forms of liberalization not included in the original definition, such as capital market liberalization. More generally, the Washington Consensus has come to be associated with ‘market fundamentalism,’ the view that markets solve most, if not all, economic problems by themselves—views from which Williamson has carefully distanced himself.

The aim of this chapter is to describe why the critics of the IMF considered it to be a part of the Washington Consensus and what kind of actions the IMF took during the Washington Consensus era. I will begin by a description of the origins and original meaning of the term, followed by considerations of two of the earliest crises during which IMF was seen to act as a part of the consensus, the Latin American debt crisis and the Peso crisis. The relevance of examining these crises is due to the Latin American crisis being the first significant global crisis of the Washington Consensus era, and due to the Peso crisis having been considered the “first financial crisis of the new century”. Majority of this chapter will, however, consist of a consideration of the East Asian financial crisis and the criticism the IMF received for its actions during the crisis, as the East Asian crisis can be considered to have been the point of culmination for IMF’s actions as a Washington Consensus institution due to the extreme measures it imposed on the crisis countries, and due to the following failures of the programmes. Finally, I will consider the reforms IMF enacted in the 2000s after the criticism it had received and due to the failures of some of its programmes. The considerations of IMF’s role in the East Asia and the reforms it enacted afterwards are the basis on which the analytical framework for the key point of the study, the analysis of the Greek case is, constructed.

#### 3.1. The Washington Consensus

The origins of the idea of a Washington Consensus was borne out of the events of the 1980s, the tumultuous “lost decade” of economic growth in Latin America and the increased role the IMF and other Washington institutions played in the economies of many developing countries. The term itself made its premiere in a speech titled “What Washington Means by

Policy Reform” in October 1989 by the English economist John Williamson, a senior fellow at Peterson Institute for International Economics, a Washington thinktank. Williamson wished to present a list of policy proposals for a reform agenda for the Latin American countries suffering from the debt crisis as a basis for a larger discussion on the topic (Williamson 2003, 10). He, at the time, believed that there was a consensus on the utility of the proposals he presented within the Washington based economics institutions, the IMF, the World Bank and the US Treasury, although he later came to realize that such a consensus did not exist on some of the proposals he presented (Williamson 2003, 11–12). While Williamson kept an impartial tone in his presentations of the proposals, he was clearly largely dismissive of the most right-wing economic policy proposals, often relegating them into the realm of right-wing think tanks. The proposals Williamson (1989, 7–20) presented were fiscal discipline, prioritization of public expenditures, reforms to taxes, interest rates and exchange rates, open trade policy, facilitation of foreign direct investments, privatization, deregulation and the creation of strong property rights.

However, as Williamson (2003, 11) later conceded, the view on Washington Consensus that became dominant was not the non-normative view of a list of consensus proposals that he presented but the idea of Washington Consensus as a set of neoliberal economic policies forced upon developing world countries by the Washington institutions, and that while the contents of this highly criticized Washington Consensus share many similarities with Williamson’s proposals it also includes some more radical elements, such as monetarism, minimizing state intervention to fix inequalities or negative externalities and the support for unfettered movement of capital.

### 3.2. The Latin American Debt Crisis and the Peso Crisis

The Latin American debt crisis in the 1980s led to significant changes in global economic order. First, it catapulted the IMF into the forefront as a global manager of financial crises while expanding its mandate from providing short term funding for balance of payment issues to structural adjustment and debt collection and second by simultaneously heralding the coming and showing the inherent downsides of the new global financial system (Boughton 1997, 16; Kapur 1998, 116; Collier & Gunning 1999, F634). The high oil prices, high commodity prices and increased indebtedness of developing countries had in the 1970s created an economic powder keg waiting to blow and in the early 1980s the keg exploded into a debt crisis. The chief cause of this was the collapse of the price of commodities, which had enjoyed an annual growth rate of 12% before beginning to sharply decline, in combination with higher interest rates due to the Volcker disinflation and the weakened

terms of trade caused by second oil shock in 1979, that together put developing economies into trouble with the repayment of their loans (Peet 2009, 86; Boughton 1997, 16).

A good example of IMF's actions during the Latin American debt crisis is the case of Mexico in 1982. Before the crisis Mexico had enjoyed impressive rates of GDP and employment growth although it was suffering from high levels of inflation and public debt (Peet 2009, 86). More importantly, for the development of the crisis, from the late 1970s onwards, Mexico had also suffered from significant net capital outflows, and by mid-1982 the inflows had all but ceased. Due to this Mexico found itself with the options of either defaulting on its loans or significantly devaluing its currency, both of which the government considered too risky (Boughton 1997, 17). To buy time the central banks of ten leading industrial countries, led by the US, extended a line of credit to Mexico (Peet 2009, 86; Lustig 1997, 27). As no other party could take a leading role in providing Mexico with long-term assistance, the IMF stepped up. First, the IMF negotiated a structural adjustment programme with Mexico, that included IMF financing, and was in force by end of 1982 (Boughton 1997, 17–18). The programme cut the fiscal deficit to from 16.5% of GDP in 1982 to 8.5% in 1983 and was a bitter pill to swallow for the Mexicans (Boughton 2001, 304–305). Second, the IMF took a leading role in arranging private financing to Mexico. The IMF recognized that while individually private lenders wished to decrease their exposure, collectively they would be willing to increase their lending to secure later repayments (Boughton 1997, 18). In November 1982 the IMF convinced major financial institutions into lending Mexico five billion USD in exchange to IMF lending the country with an extra 3.8 billion USD (*ibid.*).

The IMF's official goal during the crisis was to avoid a Mexican default that would have posed risks to both Mexico and the global financial system (Boughton 1997, 18–19). However, some critics thought that the IMF's involvement had significant downsides. The structural adjustment programme that included reductions to public-sector spending and decreases to various subsidies, has been criticized as aggravating the crisis and overstepping the IMF's institutional boundaries (Peet 2009, 86; Saner & Guilherme 2016, 1–2). Another source of criticism has been that IMF cooperated closely with western financial institutions that were Mexico's creditors to provide them a bail out (Peet 2009, 86–88; Kapur 1998, 117–119). Due to the debt crisis by the mid-1980s three in four countries in Latin America and two thirds in Africa were under a type of supervision by the IMF or the World Bank (Peet 2009, 87.).



In the first half of the 1990s Mexico found itself again in a crisis, in what has been referred to as “the first financial crisis of the 21<sup>st</sup> century”,<sup>14</sup> and what is commonly known by the Peso crisis. By late 1994 Mexico, which had been a star pupil of the Washington Consensus institutions for the reforms it had enacted and for the results it had shown, was forced into dire economic straits by unexpected factors (Boughton 2012, 455–457; Kapur 1998, 119–120). Still in early 1994 the IMF’s executive board thought that Mexico’s medium-term prospects remained favourable due to the positive economic forecast and the country having just joined NAFTA (Boughton 2012, 458). However, current account deficits caused by an overvalued peso developed into a financial crisis after markets lost confidence in the Mexican government after the assassinations of two prominent politicians and an uprising by the Zapatistas in the south of Mexico (Boughton 2012, 458–463; Whitt 1996, 2–4). By December 20 the government had few options but to devalue the Peso by 15% to try to regain confidence, which it did without first consulting the IMF (Boughton 2012, 463–465). While the Mexican government remained able to refinance its USD-denominated short-term loans, the devaluation was not enough to stem the losses to the country’s foreign-exchange reserves (Boughton 2012, 464–465; Whitt 1996, 14). Thus, on the 22<sup>nd</sup> the government floated the peso and invited a small IMF team into Mexico to gain access to loans from US and Canadian central banks (Boughton 2012, 465–466). The Mexican government hoped, and the US government believed, that the crisis could be solved on a bilateral basis without significantly involving the IMF (Boughton 2012, 476–468). On the other hand, the IMF believed that it had a key role to play for three reasons (Boughton 2012, 469). First, no creditor, including the US, would be willing to lend without IMF’s assurances that Mexico’s reforms were sound. Second, if a multilateral effort was needed, IMF would need to play a role. Third, IMF believed that its presence in managing the crisis could provide confidence. By early January it had become clear that the IMF needed to be deeply involved in managing the crisis and a larger IMF team was sent to Mexico on January 10 to negotiate terms for a SBA. The expectation was that the negotiations would be brief, as Mexico had already proposed and enacted reforms IMF approved of (Boughton 2012, 471–472). However, the negotiations lasted for over two weeks as the Mexicans wished for flexibility and wanted to avoid unnecessary austerity, while the IMF could make guarantees on the amount of assistance (ibid.). In January, while the IMF was ready to lend 7.8 billion USD to Mexico, problems arose in the US that had initially publicly promised to lend 40 billion USD, as republicans in control of the congress had begun to oppose lending to Mexico (ibid. 475). The US could

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<sup>14</sup> The name has been generally attributed to either IMF managing director Michel Camdessus or US Speaker of the House Newt Gingrich and was due to the global nature of the crisis. (Boughton 2012, 455–456).

only lend 20 billion USD without congressional approval, and the apparent collapse in the amount of support could have easily destabilized the markets further. Thus, the IMF stepped up its involvement in the crisis. The Managing Director Camdessus initiated an unprecedented action of increasing the IMF's loan from 7.8 billion USD to 17.8 billion USD while securing additional funding through other sources (ibid. 475–476). Camdessus' actions were criticized by both IMF members in Europe and by the IMF's outside critics. The European shareholders were incensed by how they felt the IMF management and US authorities had engaged in clandestine dealings without consulting other members (ibid. 477–478). The critics of IMF and the Washington Consensus, on the other hand, felt that the unprecedented support was only enacted to secure the economic interests of the US in Mexico (Kapur 1998, 120). The Executive Board ended up accepting the additional 10 billion USD with the European members abstaining (Boughton 2012, 478). While the Mexican situation remained uncertain throughout the 1995, by the end of the year the situation stabilized as the country had enacted several economic and by 1996 the country's economy was growing again and it survived largely unscathed from the upcoming economic storm in East Asia, Russia and Brazil (Boughton 2012, 485).

### 3.3. The East Asian Financial Crisis

On July 2, 1997 the collapse baht, the currency of Thailand, began one of the largest financial crisis since the Great Depression that engulfed much of Eastern Asia and would spread to Russia and Brazil (Peet 2009, 92). Thailand, alongside Indonesia and South Korea,<sup>15</sup> the two other East Asian economies that suffered the most during the crisis and actively participated in IMF programmes, were all in the group of countries called “Asian tigers”, countries that had for years if not decades experienced great economic growth under an interventionist development model (Boughton 2012, 498; Stiglitz 2002, 91). While the three economies were fairly heterogeneous, from Indonesia, a country of huge population and relative poverty, to South Korea, a country on the same level of economic development as Southern Europe and newly a member of the OECD, one critical factor all three shared was the role of the huge flows of international capital in their economic successes and in the creation of the crisis (Krugman 2009, 92–94; Radelet & Sachs 1998a, 2–3).

Thailand began its rapid growth relatively late compared to other “Asian Miracle” countries, in the 1980s, but with excellent results as the average annual GDP growth topped 8%

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<sup>15</sup> Two other East Asian countries, Philippines and Malaysia, also experienced difficulties and required IMF's assistance but in this overview, I will concentrate on the three more significant cases that have been more prominently covered.

(Krugman 2009, 78). While much of the new industry in Thailand was built with foreign direct investment, most of the domestic investments, such as real estate, were initially funded through domestic channels of credit (*ibid.*). In the 1990s, however, the importance of foreign capital flows for Thai investments began to increase, as global risks decreased and East Asian “emerging economies” became more competitive and attractive in relation to other potential investments (*ibid.* 78–79). Private capital flows to developing countries more than quintupled from 1990’s 42 billion USD to 1997’s 256 billion USD, and in the latter stages of the period these flows of capital were directed mostly to East Asia (*ibid.*). Much of this inflow in Thailand went into real estate development, partly into speculative ventures, producing a bubble in real estate prices (*ibid.* 80). While IMF at the time maintained a generally positive outlook on Thailand, it did urge caution from 1995 onwards, as the Peso crisis increased risks for all developing countries (Boughton 2012, 499). The IMF was especially worried about Thailand’s undervalued exchange rate pegged to the USD, which had a role in encouraging borrowing in foreign currencies due to expected exchange rate stability (*ibid.*). A simple solution to limit the amount of credit from ballooning would have been to let the baht appreciate but the Thai government unwilling to do this as the low and stable exchange rate aided exports, created business confidence and the maintenance of it was a matter of political prestige (Boughton 2012, 499; Krugman 2009, 81). In 1996 the flow of external credit to Thailand slowed down largely due to speculative loans starting to default which caused the failures of some local financial institutions (Krugman 2009, 84–85, Radelet & Sachs 1998a, 32). Nevertheless, Thailand’s GDP still grew at the impressive rate of 5.9%, and IMF still generally considered the Thai situation to be under control (Boughton 2012, 500; Krugman 2009, 85).

However, the weakening economy of Thailand put the baht under speculative pressure, as due to the economic troubles the currency had become overvalued (Krugman 2009, 85–86). After some clear signals, such as a warning from the credit rating agency Moody’s in late 1996 and early 1997, the IMF started to heavily pressure the Thai government to devalue the baht, but the government was unwilling to act (Boughton 2012, 501). The Thai government had two options to fix the imbalance, either by raising the interest rates, which would have led to real appreciation of the baht or a devaluation (Krugman 2009, 85–86). Both options were unpalatable to the Thais, as increases in the interest rates would have depressed the already slowing economy, and devaluing the currency would have ballooned the value of the foreign denominated debt (Krugman 2009, 86). Throughout the first half of the 1997 the reserves of the Thai central bank’s dwindled as it continued its effort to defend the value of

the baht while hiding the losses to its reserves through forward-swap agreements<sup>16</sup> (Boughton 2012, 504–505; Krugman 2009, 87). Partly due to this subterfuge, the IMF was under the impression that the crisis was subsiding in the spring of 1997 (Boughton 2012, 504). However, the continuing pressure on the baht in the first half of the year caused the central bank's reserves to run low and the government was left with no other options but to let the baht float, triggering the East Asian financial crisis.

The expectations at the time were that as the Thai government had finally followed IMF's advice to let the baht depreciate the crisis would soon be over as the increase in the competitiveness of Thai exports would stimulate Thai economy (Boughton 2012, 506; Krugman 2009, 87–88). However, while the IMF's pre-crisis estimate was that the baht needed to depreciate by 10% to 15%, the baht dropped 17% on the first day and would lose more than 50% of its value in the coming months (Boughton 2012, 503, 512–514). The loss of confidence in Thailand had led to a vicious cycle where the economy was in a slump and to stabilize the exchange rates the interest rates needed to be increased, leading to problems with debt servicing and fall in investments leading to a continuing loss of confidence as the economy fell deeper into a slump (Krugman 2009, 89–90).

The crisis next spread to Indonesia in the autumn of 1997. Indonesia, like Thailand, had experienced impressive economic growth aided by foreign financing in the years preceding the crisis, although the fundamentals of the growth were on weaker basis. The most significant issue was related to the economic inefficiencies caused by crony capitalism, as those close to the authoritarian regime of Indonesian president Suharto lined their pockets with proceeds from monopolistic enterprises or from public sources (Boughton 2012, 516). While corruption was an issue in Indonesia the country had still managed to reduce extreme poverty, and facilitated the birth of a prosperous middle class, in a social contract where cronyism was tolerated as long as majority of the people made economic gains (Boughton 2012, 519–520; Radelet & Sachs 1998a, 37–38). IMF had for some time implored Suharto to improve the state of Indonesia's financial system, to decrease fiscal deficits and inflation and to act against corruption (Boughton 2012, 517). Still even after the Thais were forced to float the baht most international observers, IMF included, did not believe Indonesia to be in serious economic risk (ibid. 518).

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<sup>16</sup> Forward-swaps are essentially loan agreements where the Thai central bank purchased dollars to enhance its reserves with a promise to repay them later.

During the summer the Indonesian rupiah, which was on a crawling band against the USD, came under pressure leading to the rupiah being floated on August 14, a move IMF approved wholeheartedly (ibid. 518). Unfortunately, as in Thailand, the floating of the currency triggered a financial crisis. While in Thailand the source of immediate financial weakness was a bubble on the real estate sector, in Indonesia the banking system, which had been in poor condition even before the crisis, came to the brink of collapse due to the new risks related to pre-existing currency deals and due to the disappearance of foreign capital in combination with the tighter monetary policy of the central bank (Boughton 2012, 518; Radelet & Sachs 1998a, 10–11). Thus, Indonesia found itself in an economic turmoil resembling that of Thailand's as the loss of confidence in Indonesia led the economy into a vicious circle.

The third crisis country, South Korea, had been one of the most successful economies in the region, with GDP growth of 7% annually since 1980, a successful democratization in 1987, joining of the OECD, in 1996 and at the time the crisis struck having been classified by the IMF as an “advanced economy” (Boughton 2013, 539–540; Radelet & Sachs 1998a, 2). These factors distinguished Korea from Thailand and Indonesia and made Korea an unlikely victim for a crisis. IMF's consultations with Korea pre-crisis were made in a cooperative spirit and included matters related to exchange rates, fiscal policy, economic liberalization and lessening of the state role (Boughton 2013, 540–541). However, during these consultations the IMF missed the risks posed by the amount of non-performing loans in the Korean banking system (ibid.). While in the early 1997 there were some signs of an impending crisis, such as the market fears about overvalued won and of the government understating the amount of non-performing loans, and the first collapse of a chaebol<sup>17</sup> in a decade, the situation still appeared manageable (Boughton 2013, 541–542; Radelet & Sachs 1998a, 32).

During the summer Korea, as Indonesia, was put under increasing pressure as the crisis spread throughout Asia and in October the rating agency Standards & Poor's downgraded Korea's debt rating (Boughton 2013, 544–555). While the IMF still believed Korea had the resources to face the crisis, unbeknownst to anyone outside the highest echelons of Korean leadership, the situation was far worse than it appeared (ibid.). The country's financial institutions held approximately 30 billion USD in very short-term liabilities that had been

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<sup>17</sup> Chaebols are large traditional Korean corporate conglomerates, often lead as if they were family businesses (Krugman 2009, 84, 96). Prominent contemporary chaebols include the Samsung family group, the Hyundai family group and the LG family group.

then tied to domestic long-term won-denominated loans, and neither the institutions themselves nor the Korean central bank had the reserves to cover the liabilities (ibid.). By the time Korea turned to IMF in late November, having failed to gather funding from bilateral sources the situation was already so dire that the country would have defaulted on some of its debts within a month (ibid. 545–551). In all three cases there were significant domestic causes to the crisis, including the bubble in Thailand, the cronyism in Indonesia and the non-performing loans in Korea. However, all three countries had for the most part been economic success stories before the crisis that was largely triggered by the capricious nature of international capital flows and the pressure the capital flows put on the economies.

The IMF policies had a relatively similar design in all three countries (Radelet & Sachs 1998b, 51). These included loans to the governments and central banks to pay foreign debt and to support the exchange rates, a framework of economic policies including balanced budgets, high interest rates to stabilize exchange rates, programme of drastic financial sector restructuring, including immediate closing of insolvent institutions and other “good governance” related reforms. While the executive board, in its annual report in 1998 (IMF 1998a, 36), recognized that some of the fault for the crisis lay in external circumstances, such as the weakened competitive position of the countries and the faulty judgements of many investors behind the massive capital flows, the board still found that “policy weaknesses in the affected countries had been the most important contributor to the sudden shifts in market sentiment.” Some of these weaknesses, as per the board, were the fixed exchange rate regime that facilitated exuberant capital inflows to the countries by providing a false sense of security, weaknesses in regulation and supervision of the banking industry, excessive government role in the economy, insufficiently transparent economic data and delays in adopting the necessary reforms to fix these underlying issues. The goal of the IMF involvement in supporting the three countries was to “[help the countries] arrange programmes of economic reform that could restore confidence [...]” and thus mitigate and eventually end the crisis. These views were displayed in the conditions IMF set for its aid.<sup>18</sup>

The Thai crisis, as per the board, began “with the baht coming under a series of increasingly serious attacks in May 1997, and the markets losing confidence in the economy”. In August the IMF approved a Stand-By Arrangement worth 3.9 billion USD,<sup>19</sup> an extraordinary 505%

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<sup>18</sup> The following descriptions of the Stand-By Arrangements, their terms and the IMF executive board views on the programmes are from the 1998 Annual Report of the Executive Board. The critical considerations of the successes of the IMF programmes will follow in the next chapter.

<sup>19</sup> The total commitments to Thailand by July 1998 were 17.2 billion USD from sources such as World Bank, Asian Development Bank and other countries in addition to IMF.

of the country's quota. The SBA included a number of conditions that most observers would consider prudent (for example Krugman 2009), such as restructuring failing financial system or establishing a more stable exchange rate regime but the programme also included requirements for privatization, increased outward orientation of the economy and fiscal consolidation of around 3% of the GDP "to support the necessary improvement in the large current account deficit, and cover the interest costs of financial restructuring". The hardships brought on by the crisis and the deep fiscal consolidation that further depressed the economy led to the collapse of the Thai government in November 1997 (Boughton 2012, 512–513). After the collapse of the government the programme was modified in a Letter of Intent in November. The Thai government reaffirmed its goal of 1% public surplus of GDP in the coming years by enacting additional measures while including plans to protect weakest in the society. However, by early January 1998 the new Thai government had reached the conclusion that fiscal consolidation was untenable both politically and economically and on 16 January IMF noted that the programme could be eased (Boughton 2012, 514). The baht also started to appreciate after months of depreciation, indicating that the crisis was subsiding (*ibid.*). Afterwards, the Thai programme was modified in two Letters of Intent in February and May 1998 "to give clear priority to stabilizing the exchange rate while limiting the magnitude and the negative social impact of the larger-than-expected economic downturn and to set the stage for Thailand's return to the international financial markets". The last changes to the programme eased up on the fiscal discipline, allowing a budget deficit of 3% of the GDP, included number of reforms and took into consideration the wellbeing of the Thai populace. In the end IMF felt the programme had been a success, as stated in James Boughton's official IMF history (2012, 514) "[f]ive months of tight policy may have seemed excessive, but it had succeeded in creating the conditions for a sustainable recovery".

In Indonesia the Thai crisis, as per the board, "exposed structural weaknesses in [the] economy, notably the weakness of the banking system and the large amount of unhedged short term foreign debt owed by the corporate sector". The negotiations for the initial programme were difficult as few in the Indonesian government supported the extensive reforms that IMF felt were necessary (Boughton 2012, 524). In early November 1997, the country finally enrolled in a programme worth 11.2 billion USD<sup>20</sup>, 490% of its pre-crisis quota. Indonesia was expected to stabilize its currency by maintaining high interest rates, to reform its financial system, to improve its institutional, legal and regulatory framework, and

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<sup>20</sup> The total commitments to Indonesia by July 1998 were 42.3 billion USD from sources similar to those of Thailand's.

to commit to structural reforms that included privatization, dismantling of monopolies and a more outward looking economic policy. IMF also expected Indonesia to cut its budget by a 3% in two years to reach a fiscal surplus of 1% of the GDP “to facilitate external adjustment and provide resources to pay for financial restructuring”.

As was the case with the Thai programme the Indonesian programme also had to go through multiple stages due to the deteriorating economic situation. The inadequacy of the first programme became apparent even before the board approved it, as the reforms in the banking system were insufficient (Boughton 2012, 526). Due to this the programme was tweaked January 1998 “[a]gainst the background of a continuing loss of confidence in the Indonesian economy”, as Suharto had been unable to succeed with most of the reforms started previously (Boughton 2012, 527). Indonesia attempted to regain confidence by signalling its intent to end several large public projects, strengthening its banking and corporate system reform efforts, limiting monopolies further and by attempting to maintain a maximum of 1% budget deficit in 1998-1999, down 3% points from the initial goal of the programme. The new programme also considered the importance for the government to guarantee necessary supplies of food at a reasonable price to answer to problems caused by a drought that had weakened the already fragile economy (Radelet & Sachs 1998a, 39). A supplementary memorandum in April 1998 included as new goals the need for establishing a necessary social safety net and to build credibility more extensive observation by international parties of the country’s reforms. In June 1998 as Suharto was toppled after three decades in power due to failing to respond to the economic difficulties and due to his crackdown on protests, a second supplementary memorandum, which was significantly different, was issued by the Indonesian leadership (Boughton 2012, 537–538). Social expenditures in the country were to be increased by 7.5%, to support food, fuel and medical subsidies and the budget deficit would be allowed to reach 8.5% of GDP. Besides these changes the Indonesian government intended to continue fixing its financial system by capitalizing sound banks while merging, recapitalizing or shutting weaker ones. During the same month, the international aspect of the financial crisis also reached its peak as the value of USD to rupiah rose to 16650. After this the crisis soon began to abate and the price of rupiah rose to 8000 per USD by the end of 1998 (Boughton 2012, 538). The country’s financial situation improved enough over the following years that by 2006 it had repaid the 10 billion USD it had received from the IMF (ibid. 539).

Korea, as per the Board, was made vulnerable by economic overheating, by weak financial system undermined by excessive government interference, by the chaebol system and by



inadequate sequencing in its capital account liberalization, as capital outflows were more liberalized than inflows. Korea's Stand-By Arrangement, largest of the three, worth 20.9 billion USD,<sup>21</sup> was approved on December 4, 1997. In the conditions for the SBA Korea agreed to restructure its financial system, to follow a western corporate system, to liberalize trade and capital inflows, to reform its labour markets, to make economic data more transparent and to consolidate its public finances by 2% of GDP "to make room for the costs of financial sector restructuring in the budget, while maintaining a prudent fiscal stance". Although the proposed fiscal consolidation was of Korean origin, as the government feared a market backlash if it proposed to run a fiscal deficit, the IMF bore the brunt of the criticism for it in Korea (Boughton 2012, 568). The programme was intensified in a LoI on 24 December with further monetary tightening, speeding up of capital inflow liberalization to a deadline of December 31 and with acceleration of previously started reforms. In February 1998, the goals were slightly modified in another LoI with a target of fiscal deficit of 1% of the GDP for the year and emphasizing the enacting reforms mentioned in the previous LoIs. The final LoI for Korea's crisis, in May 1998, was made in a situation where the external crisis had largely abated but the domestic economy was still in a slump. To assist the economy the fiscal deficit target was lessened to a deficit of 2% of GDP for the year while measures related to a stronger social safety net were included. Throughout the duration of the SBA Korea met and even exceeded the programme's targets and managed to repay the 19.6 billion USD it had received by 2001 (Boughton 2012, 568–569). Though the crisis was painful in Korea for a time, of the three crisis countries it made the fastest and most sustained recovery (ibid.).

### 3.4. Criticism of IMF's handling of the East Asian Crisis

When the Fund consults with a poor and weak country, the country gets in line.  
When it consults with a big and strong country, the Fund gets in line.

-Paul Volcker, Chairman of the Federal Reserve 1979-1987 (in Volcker and Gyohten 1992).

The IMF's role in precipitating and its response to the crisis in the East Asia have been perhaps the most criticized actions the IMF has ever undertaken. Besides the critics of the IMF actions who are critical of capitalism, neoliberalism and/or globalism, from both economics and other social sciences (for example Peet 2009, Kapur 1998, Radelet & Sachs 1998b), the critics have also included some of the luminaries of mainstream economics

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<sup>21</sup> The total commitments to Indonesia by July 1998 were 58.2 billion USD from sources like those of the two other countries.

profession, for example the Nobel laureates in economics Joseph Stiglitz (2002), who was the chief economist of the World Bank at the time of the crisis, and Paul Krugman (2009), both of whom share with the IMF the basic understanding of economics but strongly disagreed with the specifics of the IMF programmes in East Asia.

The chief criticism related to the IMF's role in the lead-up to the crisis was its wholehearted endorsement of liberalization of regulations related to global capital flows that in the opinion of many critics of IMF's actions in East Asia had a key role in the creation of the crisis. For example, Stiglitz (2002, 99) wrote "I believe that capital account liberalization was *the single most important factor leading to the crisis* (emphasis in original)" and that the liberalization was "pushed on these countries" by the IMF and the US Treasury. Although the critics in this vein generally acknowledged that poor national economic policies were partly to blame (see for example Kapur 1998, Krugman 2009, Radelet & Sachs 1998a, 1998b) but, as Robert Wade (1997, 1545) put it:

Perhaps the single most irresponsible action in the whole crisis was capital account liberalization without a framework of regulation. [...]. The blame is shared between national governments and international organizations. But it has to fall disproportionately on the IMF, that for several years now has been pushing hard for capital account opening.

The view that the IMF had been the vanguard of capital flow liberalization, was not just the opinion of IMF's critics but the actual explicit IMF policy before the crisis. The Interim Committee of the Board of Governors on the International Monetary System<sup>22</sup> had shortly before the crisis outlined a plan to amend the AoA to include "Liberalization of Capital Movements", and "considered that an amendment of the IMF's Articles will provide the most effective means of promoting an orderly liberalization of capital movements consistent with the IMF's role in the international monetary system" (IMF Survey 1997, 301). As per the critics of the IMF this move would have been, "a momentous extension of the Fund's original powers (Peet 2009, 92)". However, by the 1998 meeting of the Interim Committee (IMF 1998b), after the East Asian crisis had struck, the proposal to amend the AoA to include explicit statement on capital account liberalization had been abandoned.

The critics of the IMF's actions during the crisis criticized the IMF from multiple intertwined directions. A key criticism of the IMF is related to the conditionality of the programmes. As stated in the second chapter of this work, the IMF sets conditions on its loans for two general reasons, to guarantee that it is repaid and to make sure that the underlining issues that caused

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<sup>22</sup> From September 1999, onwards the International Monetary and Financial Committee of the Board of Governors.

the need for IMF financing will be fixed. Or, as Krugman (2009, 115) writes, “[f]or the IMF is a ‘lender of last resort’ for national governments [...]. And lenders of last resort are supposed to practice tough love: to give you what you need rather than what you want, and to force you to pull yourself together in the process” However, as Krugman continues, “just because people hate the IMF doesn't mean that it is doing its job well”.

In an ideal case the negotiations between the IMF and the country in need would lead to the parties reaching a compromise on conditions that, while not necessarily exactly what either side preferred, would still be acceptable to both, and thus the country could consider the programme its own (Boughton & Mourmouras 2004, 225). However, a significant issue relating to these bilateral negotiations is that sometimes when a country approaches IMF for assistance they may no longer have other options for financing left, as was the case of the East Asian three, and are thus at a disadvantageous negotiation positions towards the IMF. To paraphrase Ariel Buira (2003, 5), a prominent proponent of IMF reforms, a country in a good economic position has a lot of leverage over the IMF, while one in crisis “may be compelled to accept conditions that in better circumstances it would have considered politically unacceptable.”<sup>23</sup>

Thus, if the country accepting the conditions it has negotiated with the IMF may in reality have few if any options besides cooperation with IMF, then a significant portion of the responsibility for what these conditions caused lies on the shoulders of IMF. And in the case of the three East Asian countries the IMF faced strong criticism on the economics of the conditions that were part of the SBAs. These IMF programmes faced a two-pronged assault by the critics, first from the direction of how the programmes failed in reaching their stated goals and second from how the unintended, or overlooked, ill effects of the programmes would cause harm to the societies in question. Steven Radelet and Jeffrey Sachs (1998b, 61–68) presented five points on why the programmes failed to “re-establish market confidence in time to prevent the collapse of debt servicing or achieve the early stabilization of exchange rates”. The first of their points is that the IMF, in short term, is about as effective at creating confidence as “seeing an ambulance outside one’s door”, as the IMF involvement signals that the situation is dire. Second, the IMF’s public declarations that the crisis was caused in

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<sup>23</sup> There also exists an opposing theoretical view on conditionality that sees that considers that conditionality can be beneficial for country’s economy when the IMF and the government of a country agree on the reforms but the government does not have the domestic power to push the reforms through by itself. Thus, the IMF can change the domestic political calculations and allow reforms to pass when they otherwise wouldn’t have (See for example Drazen 2001). However, considering the amount of criticism the IMF received in East Asia and the imbalance of power between the IMF and the three East Asian countries in question this view does not seem to be very relevant in this case.

large part by the failures of the countries in question was unhelpful for building confidence, or as Sachs put it in the American Prospect Magazine in 1998 (Sachs 1998), “instead of dousing the fire, the IMF in effect screamed fire in the theatre.”<sup>24</sup> While fixing some of these issues would be beneficial in the long term, in the short term they just underlined the countries’ problems and worsened confidence. Third, which is also effectively criticism of poor economic policy prescription, the IMF’s hypothesis that drastic and rapid restructuring of the financial system, especially by closing banks and financial institutions in significant troubles, would cause investor confidence was blatantly wrong. In fact, closing of financial institutions, especially in cases where investors or lenders into these institutions face losses, has a debilitating effect on confidence. The most egregious example of this was in the case of Indonesia where 16 banks were closed with deposit guarantees of only 5000 USD which led to a run on all the domestic banks in Indonesia. By January 1998 most of the banking sector had ground to a halt in all three countries and foreign banks were no longer willing to cooperate with banks or corporations in the countries, leading to, for example, exports in Thailand falling by 8% even with a much more advantageous exchange rate. Fourth, the demands for fiscal consolidation and tighter monetary policy proved to have little effect in producing confidence or stabilizing exchange rates. In the case of fiscal consolidation, the goal of fiscal surpluses was supposed to create market confidence but this failed to occur, and the markets also did not consider the relaxing of the tight fiscal policy from early 1998 onwards to be destabilizing. Tighter monetary policy is a traditional tool for defending one’s currency on which most economist would generally agree on but in the case of a panic its effectiveness is questionable as described by Kindleberg and Aliber (2005, 19):

Tight money in a given financial center can serve either to attract funds or to repel them, depending on the expectations that a rise in interest rates generates. With inelastic expectation—no fear of crisis or of currency depreciation—an increase in the discount rate attracts funds from abroad and helps provide the cash needed to ensure liquidity; *with elastic expectations of change—of falling prices, bankruptcies, or exchange depreciation—raising the discount rate may suggest to foreigners the need to take more funds out rather than bring new funds in.* [emphasis added].

In the case of Indonesia, for example, the high interest rates that were meant to stabilize the value of the rupiah put significant pressure on local banks, which both the authorities and market participants soon realized. The Indonesian central bank was eventually forced to provide liquidity to the banking sector and the value of rupiah continued to fall. Yet the following programme in November 1997 included re-emphasizing of tight monetary policy.

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<sup>24</sup> Expression, and sentiment, mirrored almost word to word by Joseph Stiglitz (2002, 97).

Finally, the IMF simply did not have the resources to be a credible lender of last resort as it could not provide sufficient short-term financing the countries needed.

The criticism the IMF received from those not considering the failures of programme objectives but instead the actual negative effects of the programmes was even more intense. This criticism was summarized well by Paul Krugman (2009, 112) who wrote that “[a]t the core of the policies imposed by Washington on many of the crisis countries was an almost perfect inversion of the Keynesian compact:<sup>25</sup> faced with an economic crisis, countries were urged to raise interest rates, slash spending, and increase taxes”. Since the end of the Second World War, there has been a consensus within the economics profession that Keynesian economic policy of increasing aggregate demand, either by fiscal spending or by looser monetary policy, is an effective tool to combat economic downturns (Krugman 2009, 112; Stiglitz 2002, 99). Thus, the fact that the IMF promoted austerity policies that would further depress the economies. This was doubly peculiar considering that the macroeconomic situations of the countries pre-crisis had been fairly good with low inflation and fiscal surpluses, which is why IMF was one of few that considered fiscal balances to be at the centre of the economic troubles in East Asia (Krugman 2009, 115; Stiglitz 2002, 99). These austerity policies also played role in the spreading of the crisis, as weakening economic position in one country weakened the economies of its neighbours that were its trading partners (Stiglitz 2002, 107). An interesting point of comparison and contrast, as per Stiglitz (2002, 93), is the what happened in Malaysia that “was [the only one] brave enough to risk the wrath of the IMF”, and that had “downturn shorter and shallower than that of any other countries”.

However, Stiglitz (2002, 119) writes that the worst mistake the IMF made during the crisis was its insensitivity to the suffering caused by the austerity policies and the ignorance of the potential for political and social unrest that this could lead to, feelings he had conveyed during the crisis to the IMF managing director Camdessus, whose response was that the painful measures were simply necessary. In Indonesia the hard austerity that included drastic cuts in food and fuel subsidies led to rioting, which forced the IMF into reversing the policy (ibid.). Another interesting point related to the issue of reforms is that if the IMF was wrong about the causes of the crisis, as many of its critics would agree, insofar that the crisis was

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<sup>25</sup> The Keynesian compact, more generally referred to as the neoclassical synthesis, refers to the idea in economics that while free market capitalism may cause the occasional economic crisis the monetary and fiscal authorities have the tools to reignite the national economic motor, either by soft monetary policy of lowering interest rates, which causes increases in investments or by expansionary fiscal policy that will increase the aggregate demand in the economy (Krugman 2009, 102).

not only caused by weaknesses in domestic economies but also by capital flows, then how could the IMF's prescriptions possibly be accurate? Or as Yung Chul Park, a Korean economist and a member of the Korean Presidential commission on Financial Reform in 1997-1998, said "[t]he causes are important because the IMF or any other international financial institutions would have to correctly understand causes if they were to design their structural policy" (Goldstein, Geithner, Keating & Park 2003, 451).

A second significant issue related to conditionalities besides their coercive nature is the danger to the programmes by the lack of parsimony as the amount of conditions had increased immensely over the decades. This criticism related to the "mission creep" of the IMF was presented in general terms by Babb & Buira (2004). They use the length of the Letters of Intent of the Stand-By Arrangements as a proxy for the mission creep. They provide the case of the Peruvian government as an example of this (ibid. 6). In the Peruvian case the LoIs grew from two pages in 1954 to six in 1963 and to thirteen in 1993. Krugman (2009, 115–116) considers this phenomenon to be one of the problems with the IMF programmes in East Asia, giving as an example the Indonesian case:

Let's start with the easy part: two things that the IMF clearly did do wrong. [...] Second the IMF demanded "structural" reform—that is, that went well beyond monetary and fiscal policy—as a condition for loans to afflicted economies. Some of these reforms, like closing bad banks, were arguably relevant to the financial crisis. Others, like demanding that Indonesia eliminate the practice of giving presidential cronies lucrative monopolies in some businesses, had little if anything to do with the IMF's mandate. True, the monopoly on cloves (which Indonesians like to put in their cigarettes) was a bad thing, a glaring example of crony capitalism at work. But what did it have to do with the run on the rupiah?

Another key critique of the IMF's actions in the East Asia has been its close cooperation with, or even submission to, the US Treasury's policies and the role the US government generally plays at the IMF (for example Krugman 2009, Stiglitz 2002, Wade & Veneroso 1998, Bello & Guttal 2005). This is possible because the US is the only country that holds an effective veto on certain matters and is also the IMF's largest financier. Besides this institutional power the United States is also the world's most significant economy with the largest resources to assist countries in crisis in cooperation with the IMF, as happened during the Peso crisis. Due to these two reasons the US has been to have had an overwhelming role within the IMF.

James Boughton's official IMF history on the crisis (2009), which was widely used in this study's description of the development of the crisis above, mentions a handful of times when the US Treasury directed IMF policy. First of these cases was during the Thai crisis when the IMF was in a deadlock over whether deposits in the Thai banking system should be

guaranteed, on which “the U.S. Treasury expressed a strong view in favour of guarantee”, a recommendation the IMF followed (Boughton 2009, 507). While this intervention by the Treasury most likely had a positive effect on stabilizing the Thai banks, most of the US interventions did more harm than good. The first of these was related to the hole in the reserves of the Thai central bank. The IMF and the Thai government were hesitant to reveal this issue fearing the market reaction but at the insistence of US Treasury, which felt that markets most likely were already aware of the situation and that transparency would build confidence, the IMF reluctantly went along with including the revelation of the reserve situation in the conditions for IMF aid (ibid. 508). The revelation ended up being poorly received by the markets and put Thai economy under more pressure (ibid. 511). The next key US actions (ibid. 524–529) were related to Indonesia. Initially in the crisis US officials, attempted to pressure Suharto and other Indonesian officials into committing to strong economic reforms. When Indonesia failed in implementing these reforms US Treasury became convinced Suharto would need to leave office for the reforms to have a chance of success and that the IMF should not provide Indonesia with additional support (ibid. 535). The Australian government, which had much closer links to Indonesia, felt that the IMF austerity should be decreased as it was already tearing Indonesian society apart and that Suharto needed US and IMF support, views the Australians shared with both US and the IMF to no avail. Within a few months Suharto was toppled with the following IMF programmes being less concentrated on austerity and more on the economic wellbeing of Indonesians (ibid. 537–539).

The US Treasury also had a key role in the extent of structural reforms Korea agreed to. As Korea came near to defaulting on its loans in December 1997 Korean officials were in close contact with the US Treasury in an attempt to receive US support. Korea was prepared to enact reforms that went beyond those that IMF had proposed to receive the US support (ibid. 563). However, the most egregious use of US power during the crisis was the fate of the Asian Monetary Fund (AMF). In August of 1997 Japan proposed the formation of the AMF, with an initial capitalization of 100 billion USD from Japan, to support the exchange rates and depressed economies of the East Asian countries without including strict conditionalities (Bello & Guttal 2005, 20; Stiglitz 2002, 112; Wade & Veneroso 1998, 20). The IMF in tandem with the United States came strongly against the idea and as Japan was unwilling to go against the two the idea was buried by November 1998 (Wade & Veneroso 1998, 20). Joseph Stiglitz the incident, writing (2002, 112):

[The US] Treasury did everything it could to squelch the idea. The IMF joined in. The reason for the IMF’s position was clear: While the IMF was a strong advocate

of competition in markets, it did not want competition in its own domain, and the Asian Monetary Fund would provide that. The U.S. Treasury's motivations were similar. As the only shareholder of the IMF with veto power, the United States had considerable say in IMF policies.

A critique related to the interest of the United States, and of other developed countries, was the allegations by critics that the IMF-spearheaded financial aid packages have at least to some extent had the purpose of bailing-out western financial institutions that made imprudent investments in the East Asia before the crisis, criticism similar to the one described in the handling of the Peso case in this study. The financial markets had been oblivious to the fact that their loans to East Asia were going to inflate bubbles or to inefficient industries, as can be seen from the interest rates between US and East Asian countries converging until the crisis began (Kapur 1998, 123). And when the crisis struck, partly due to the economic overheating these imprudent loans caused, East Asian countries were forced to use some of the money they received from international institutions and other countries to repay some of the debts they owed to these western institutions, allowing them to escape the crisis mostly unscathed (Stiglitz 2002, 95; Kapur 1998, 123).

The final element of the critique that I will address is significantly more subjective from the perspective of those critical of the IMF. This is the idea that the IMF policies to some extent were either a punishment for economic profligacy or for not following the tenets of the Washington Consensus. As Ariel Buira (2003, 17–18) put it:

In any event, questions could be raised regarding the morality of punishing the population of a whole nation [through the hardship of adjustment], particularly the poor and the unemployed who invariably bear the brunt of adjustment, for the failings of a government or for exogenous factors such as downturns in terms of trade, for international recessions, changes in the markets appetite for developing country assets and contagion.

Stiglitz (2002, 91) presents that the institutions involved in the Washington Consensus were unhappy that the East Asian countries were flourishing through a programme of state interventionist development programme instead of the market fundamentalist programme supported by Washington. As he puts it “[t]he IMF and the World Bank had almost consciously avoided studying the region, though presumably, because of its success, it would have seemed natural for them to turn to it for lessons for others.” Thus, when the crisis struck the critics of the East Asian model felt vindicated and the following IMF programmes forced the East Asian countries to follow the model more to the liking of the Washington Consensus institutions.

As described above, some of the chief sources of criticism for the IMF were the coercive nature of conditionality, the failures of IMF’s programmes in achieving their goals, harmful



economic policy descriptions, and the imbalance of power within the IMF, with the related view that IMF worked to protect the lenders originating from the countries with most power in the IMF. From this analysis of the kind of criticism the IMF has received it is clear that there was much proof for improvement for IMF's programmes as the influence of the Washington Consensus policies began to wane after the mixed success they had demonstrated during the East Asian crisis. The IMF took some of this criticism into consideration as it started a program of reforming the balance of power and the setting of programme conditionalities during the first decade of the 21<sup>st</sup> century.

### 3.5. Towards a post-Washington Consensus

While few critics of the IMF would contest the IMF view that at least some of the structural reforms it promoted in the East Asia would had been beneficial, at least in the long term, there was clearly, as described above, plenty of criticism about its actions and the effects of its programmes. The IMF was not deaf to the criticism and after the East Asian crisis, the crisis in Argentina, an IMF model student, in 2000, and with the appointment of a new Managing Director, Horst Köhler, the IMF acted to mitigate some of the issues that had caused the IMF to receive intense criticism (Ocampo 2008, 85–86).

The first change was made already during the crisis and was related to the economic policy prescriptions. As was mentioned in the description of the IMF programmes in the crisis countries, after the beginning of 1998 the IMF started to relax its requirements for fiscal austerity. While already in the 1998 annual executive board report (IMF 1998a, 25) “[s]ome Directors questioned the need for significant tightening of fiscal policy since the Asian economies in crisis generally did not suffer from fiscal imbalances” by the 1999 report (IMF 1999, 35–36) the IMF executive board noted that the weakening economic position in the crisis countries meant that trying to balance or produce budget surpluses would be harmful for the countries’ economies. By the 2000 executive board report (IMF 2000, 14) the board’s view on using fiscal deficits in stimulating economies had gone full circle since the crisis began, as it noted that “[t]he recoveries in Korea, Malaysia, and Thailand were supported by expansionary fiscal and monetary policies, which contributed to a turnaround in domestic demand”, meaning that, at least in the East Asian case, the IMF executive board came to accept the mainstream view in economics that government actions to mitigate economic crisis via fiscal and monetary measures often prove advantageous.

Other reconsiderations of the IMF policy and reforms to its governance were made during the first decade of the 21<sup>st</sup> century. The first of these, and one of the most significant, was

the 2002 update to the Guidelines on Conditionality (IMF 2002b), the 1979 document that had directed the structure of the IMF conditions the countries needed to adhere to receive IMF assistance. While the 1979 document had asserted that conditions should be kept to a minimum the actual amount of conditions it is clear that the amount of required conditions exploded over the decades as shown by Babb & Buira (2004). The stated reason for the update of the conditionalities as per the IMF press release on the topic (IMF 2002c) was:

The review and the guidelines it produced were undertaken with the aim of streamlining and focusing conditionality so as to enhance the success and effectiveness of Fund-supported Programmes and to promote national ownership of reforms. Thus, an important purpose of the guidelines is to improve the interaction between the Fund and borrowing countries as they work together to promote sustainable growth and development.

The IMF and its new managing director Horst Köhler thus wished to adjust the conditions in a way that would guarantee the success of more programmes with as few terms as possible after the bloated and only partially successful programmes of the East Asian crisis (Best 2007, 477-478). There existed concern within the IMF that if it did not commit to clear reforms the role of the IMF could be cut back due to the criticism it had received from both NGOs and some member governments, including the United States where the Treasury Secretary Lawrence Summer called for more focused use of conditionality and for the IMF to return to its “core competences” (ibid.).

Against this backdrop the IMF needed to commit to reforms that would satisfy its critics. It did this by underlining the importance of five factors in the crafting of programmes that would prove more successful and popular than the programmes of the 1990s (Best 2007, 477; Buira 2003, 14). The first factor was parsimony, meaning that the IMF programmes should include only as many conditions as are absolutely needed. Second was tailoring, meaning that the programme should relate to the member’s specific circumstances. The third was co-ordination, meaning that the IMF should cooperate more extensively with other international actors, especially the World Bank, to improve legitimacy and to increase sources of political analysis. Fourth was clarity, as the bloated IMF programmes had proven difficult to decipher the IMF should in the future aim makes sure that the programmes main goals are clear. And fifth, the ownership of the programme, maybe the most important one, meaning that the member country should have a key role in determining how to meet the programme’s goals and especially that there exists the political will to go through with them. However, as per Buira (2003, 14–15), while “the new guidelines are a very commendable effort [...] in substance, the new Guidelines are not very different from the previous ones that had been in force since 1979”, as issues related to parsimony and ownership were

already included in the original guidelines only to have been ignored by the IMF staff due to external pressures and views of some in IMF leadership that when a country come to IMF for aid the IMF should use the opportunity to push for extraneous reforms. However, the 2002 reform was important in the way it signalled to the IMF staff that five factors should be considered as key points of programmes in the future (Buire 2003, 15).

The third major reform in the 2000s was related to IMF's quotas, and thus the relative power of different countries within the IMF (see Table 1 for historic changes in quotas). Over the decade the IMF has agreed on, though not necessarily enacted, several reforms that have, to some extent, shifted voting power from the developed economies to countries that were previously underrepresented. The first of these reforms was in 2006 and included "as a first step ad hoc quota increases for a group of the most clearly underrepresented countries, China, Korea, Mexico and Turkey" and a call for a reform of the quota formula by the executive board (IMF 2007). The purpose of these reforms, as expressed by then IMF Managing Director Dominique Strauss-Kahn was to be "an important step toward a redistribution of voting shares toward dynamic emerging market and developing countries" (IMF 2008b). After the 2006 reform the IMF has agreed on two more significant reforms to changes in the distribution of quotas, in 2008 and 2010 that became effective in 2011 and 2016 and fall thus outside the considerations of this study, as the first Greek SBA was accepted in 2010. In short, the 2008 reform included further improvements to the voting power of the underrepresented countries and the tripling of the number basic votes to a fixed amount of 5.502%, the voting power of the which had before the reform fallen from 12.4%, at the time of founding of the IMF, to around 2% (Buire 2001, 2; IMF 2008b). The 2010 reform included the largest redistribution of voting power so far, doubling the number of quotas and including a shift of 6% of the voting power to dynamic emerging and developing market economies (IMF 2010b, IMF 2016c).

Thus, during the first decade of the new millennium, the IMF clearly engaged in reforms to both enhance the chance of success for its programmes and to quell some of the criticism it had received due to what had been considered mishandlings of many of the earlier programmes. The two primary institutional reforms related to these goals were those related to the enhancing of programme success by the update to the Guidelines to Conditionality, and by rebalancing the balance of the power in the IMF through reforms to the voting shares each member possessed. However, as will be seen in the Greek case, it would appear that these reforms might not had gone far enough to both ensure programme success.

	1978 (Seventh Review)	1983 (Eight Review)	1990 (Ninth Review)	1998 (Eleventh Review)	2008 Reform	2010 Reform (14th Review)	Change Over Period
Size of Quota Increase	50,9%	47,5%	50%	45%	11,5%	100%	
Advanced Economies	65,4%	64,2%	61,9%	62,1%	60,4%	57,6%	-7,80 %
-United States	21,5%	20,0%	18%	17,5%	17,7%	17,4%	-4,10%
Developing countries and emerging markets	34,6%	35,8%	38,1%	37,9%	39,6%	42,4%	7,80%
Sources: IMF 2009b, IMF 2016b							

*Table 1: Quota shares for selected groups*

## 4. The Greek Sovereign Debt Crisis

Greece is a developed economy, a founding member of the IMF and a member of the predecessor of the EU, the EC, from 1981. The country adopted the Euro in 2001 and was thus in the group of countries that adopted the new physical currency at the beginning of 2002. During the decade preceding the Greek sovereign debt crisis the country appeared to be one of the most successful economies in the EU with the Greek GDP growing on average by 4% annually during the 1998–2007 period compared to the EU average of 2.6% (World Bank 2018). However, the seeds to the Greek crisis had already been sown in the early years of the decade. Three primary factors for the crisis can be identified, these being the poor state of the Greek economy that had been concealed by the authorities, the effects of Greece adopting the Euro, and the global financial crisis of 2008.

The first cause for the crisis, the issues in the Greek economy, were the primary reason for the crisis. While there existed a large amount of problems in the Greek economy, such as economic inefficiencies caused by corruption and an extensive shadow economy and the country steadily losing competitiveness due to high inflation, the chief domestic cause for the Greek sovereign debt crisis was the poor economic housekeeping by Greek governments throughout the 2000s, and especially the large amount of public debt the Greek government had accrued (Alogoskoufis 2012, 21; Gibson et. al. 2011, 8; Vlachos 2013, 136–138). According to the Stability and Growth Pact (SGP) of the European Union, a member of the Economic and Monetary Union (EMU), such as Greece, should hold their fiscal deficit at a maximum of 3% of GDP annually, with total government debt under 60% of the GDP. While Greece had for most of its pre-EMU EU membership recorded fiscal deficits far above the 3% limit to join the EMU, by 2000 the country appeared to have had made necessary reforms and was accepted into the EMU from the beginning of 2001 (Sturges 2010, 78). This was possible even though the Greek debt-to-GDP ratio was near 100%, due to Greek governments having practiced expansionary fiscal policies from the early 1980s onwards, as the amount of public debt was seen to have been on a downward trend (Alogoskoufis 2012, 16–19; Gibson et. al. 2012, 501). There has also been strong suspicion that Greece reached the 3% GDP deficit to join the Euro by “creative bookkeeping”, and the statistics the Greek government provided to the EU were largely inaccurate throughout the 2000s, for example the actual fiscal deficits of the Greek government before the crisis from 2004 to 2008

averaged at 7.25% of the GDP,<sup>26</sup> over double the SGP criteria (Sturges 2010, 69; Gibson et. al. 2012, 500–501; Bitzenis & Vlachos 2013, 239–240).

Greece was not the only country in the EMU that had stretched the rules of the SGP as certain flexibility to the limits were added already in 2005 due to the fiscal deficits of Germany and France but Greece was by far the most egregious rule breaker (Sturges 2010, 77). The dubiousness of the Greek statistics, and thus the poor fiscal status of the Greek state, should have been common knowledge far before the crisis struck as Eurostat, EU's official statistical agency, had been giving warnings about the reliability of Greek statistics practically since Greece joined the EMU, for example by refusing to validate data sent by the Greek government in 2002. However, the crisis only struck in October of 2009 when a newly elected Greek government was forced to admit that their annual deficit was ballooning from the estimated 6%, already well above SGP limits, to 15.4% for the year, which led to the realization by the markets that all investments in Greek government debt had been made on false basis (Bitzenis & Vlachos 2013, 239; Sturges 2010, 69, 78; Vlachos 2013, 136).

A contributing cause for the crisis was Greece's EMU membership, which had a role in both the magnitude of the crisis and in the loss of confidence in Greece that followed the. After Greece joined the EMU and introduced the Euro the long-term interest rate spreads on Greek government bonds converged strongly with the EMU average and with the economically strongest EMU member, Germany, meaning that Greece had access to a more loans at lower rates (Gibson et. al. 2012, 500). This was due to three distinct economic advantages Greece gained from its EMU-membership. First, Greece was a country with historically high levels of inflation compared to other EMU members. Higher interest rates had been a contributing factor in the higher nominal interest rates the country had had to pay. However, joining the Euro was thought to stabilize Greek inflation, as Greeks could no longer print their own money while also having to follow the EU rules (ibid. 499). Second, as part of a larger and more stable currency area investors buying Greek public debt would no longer need to worry about large currency fluctuations, and thus the risk premium and nominal interest rates for Greek debt would fall (ibid.). Third, the increased stability and lower levels of inflation would decrease risks and thus extend horizons for economic considerations, which would lead to increased economic activity in Greece (ibid.). These three factors would stimulate the economy while allowing the Greek government to borrow more than it could had before (ibid. 500).

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<sup>26</sup> Revised Eurostat statistics.

However, considering the degree of convergence in Greek government bond interest rate spreads compared to clearly stronger EU economies, the economic rationale does not seem to explain the whole convergence. Another dimension of the decrease in the spreads was likely the implicit guarantee that the Eurozone countries would not allow one of their own to default on its debt. During the time of economic growth this allowed for larger budget deficits in Greece but during the crisis it had a part in bringing the Greek economy deeper into trouble as it became unclear whether Greece's Eurozone compatriots would be willing, or even able, to assist Greece and thus weakened the market confidence in the capability of Greek government to repay its debts (Alogoskoufis 2012, 28–29; Featherstone 2011, 202–203; Kouretas et. al. 2010, 396).

The ultimate trigger for the Greek sovereign debt crisis was the international financial crisis that began brewing in mid-2007 with the implosion of the real estate asset bubble in the United States and developed into a global crisis after the collapse of the investment bank Lehman Brothers in September 2008. Early in the crisis the EU authorities underestimated the severity of the situation, with the EU Commission still forecasting a small average economic growth for 2009 in the autumn of 2008 and with the European Central Bank being more concerned with defending the European banking sector that had heavily invested in the US (Alogoskoufis 2012, 24; Lane 2012, 55–56). However, the collapse of Lehman Brothers began the global process of deleveraging, credit market contractions, asset value write-downs and increased risk aversion that would lead into sovereign debt crises in number of European countries, including Greece, and to the EU GDP contracting by 4.1% in 2009 (Alogoskoufis 2012, 24–25). In the late 2009 many EU governments reported weakening fiscal positions due to the economic downturn which had a negative effect on sovereign debt interest rates (Lane 2012, 56). The final nail to the coffin for Greece was when the newly elected Greek government came clean with the actual fiscal situation of the country, and this, in combination with other negative developments in sovereign finances globally, for example the request for a debt moratorium by Dubai's Dubai World conglomerate, made investors realize that even sovereign debt might not be a safe investment, practically cutting the supply of financing to many countries in weaker fiscal situations, first among many being Greece (Gibson et. al. 2011, 10; Lane 2012, 56).

The effects of the crisis were enormous for the Greek economy. The Greek economy went into depression in 2008, with GDP contracting by 0.3%, followed by a contraction of 4.3%

in 2009 (World Bank Data).<sup>27</sup> By the early 2010 the credit spreads between Greek and German sovereign debt had risen to 4.77% from 0.3% in 2007, and the credit rating of the Greek government debt had been continuously downgraded (Alogoskoufis 2012, 28–29). Due to this crisis of confidence the Greek government was finding itself in deep trouble as it could no longer find sources of private finance on the markets for refinancing its debt (Alogoskoufis 2012, 28–29; Visvizi 2012, 26–27). Due to threat of an imminent default the Greek government was forced to turn to its EU partners and to the IMF for financing.

#### 4.1. The IMF, the Troika and the Crisis

**The main objectives of the program are to correct fiscal and external imbalances and restore confidence.** Without regaining confidence in the sustainability of fiscal and economic developments, the cost of funding the economy is bound to stay high if not increase further. The fiscal and the external imbalances need to be corrected. Facing these two tasks at the same time is challenging, requiring a major reorientation in the economy. Growth is unlikely to be buoyant as the initial corrective fiscal measures are implemented, but with financial sector policies to preserve the soundness of the banking sector and strong medium-term fiscal and structural policies, the economy will emerge from this experience in better shape than before with higher growth and employment. (IMF 2010d). [Emphasis in original]

In the March and April of 2010 there were discussions on multiple levels in the EU about how the EU should respond to the Greek crisis.<sup>28</sup> While the Eurozone had strict rules on how to prevent crisis through the adherence to the SGP, when a crisis struck no obvious avenues to support Greece could be found, with the ECB having acted to the limits of its rules by supporting buying Greek government bonds (Visvizi 2012, 22; Featherstone 2011, 201). This uncertainty in actions by Greece's European partners had a significant role in deepening the crisis, as the markets could not be confident that Greece would receive sufficient support from the EU (Alogoskoufis 2012, 28–29; Featherstone 2011, 202–203; Kouretas et. al. 2010, 396). The European leaders considered two ways to support Greece, either with a strictly intra-European solution in which other European governments would have provided bilateral loans to Greece, or with one of including IMF in the process (Visvizi 2012, 22.). The option of involving the IMF was hotly debated by European leaders, as there existed fear of the market reaction if the EU had to involve the IMF in rescuing one of its members (ibid.). Finally, on March 26 the European leaders, largely due to German preference, agreed on the principles of a programme to support Greece with IMF having a significant role in the process, as the IMF's participation would ensure that strict conditionality, that would force Greece into following the rules of the SGP, could be imposed (Featherstone 2011, 202;

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<sup>27</sup> In total, to date, the Greek GDP has contracted by 45% (World Bank Data).

<sup>28</sup> This description of the handling of the crises only covers the period of the initiation of the First Greek Economic Adjustment Programme, which is the subject of this study.



Visvizi 2012, 22). On April 15 the Greece government sent preliminary letters to both IMF and the EU institutions, ECB and EC, about a prospective multi-year programme of financial assistance with significant economic reforms, should the Greek government request one, and by April 23 the Greeks, due to deteriorating situation, sent the official request for financial support to the institutions (Visvizi 2012, 22).

The International Monetary Fund participated in the First Greek Economic Adjustment Programme alongside the European Commission and the European Central Bank, with the three coming to be known as the Troika. While the three parties were cooperating closely on financing the Greek government and in trying to find a solution to the crisis the IMF's operation was independent of that of the EU institutions.<sup>29</sup> The European partners of the Troika accepted the Greek request for assistance on May 2 (Visvizi 2012, 26; Featherstone 2012, 202). Out of the 110 billion Euro programme of support the European partners were responsible for 80 billion, which consisted of bilateral loans from other EU governments pooled by the European Commission (Visvizi 2012, 26). On May 9, 2010 the IMF followed suit, with the Executive Board approving a SGA that gave Greece access to 30 billion Euros from the IMF, which amounted to an exceptional 3212% of Greece's pre-crisis quota (IMF 2010c; Visvizi 2012, 26). The Greek government received its first loan of 20 billion Euros on May 18, and was to receive the rest over three years if it adhered to the conditions of the programme as monitored by all three Troika members (Visvizi 2012, 26–27). These conditions, as described in the documents supplied by Greece to the IMF and to ECB and EC, involved drastic fiscal adjustments and structural reforms over a five-year period (Alogoskoufis 2012, 30–31). The main point of the programme was for Greece to decrease its public-sector deficit by 16.4% of GDP during the period of the programme largely by the way of cutting government expenses with a smaller part from increased revenues from more effective taxation (ibid. 32–35). This was an unprecedented contraction in a fiscal budget that led to significant additional contraction in the economy already in crisis (ibid.). The expectations of the programme were that, while public debt would balloon to 153% of the GDP by the end of the programme, the economic reforms and fiscal adjustments would return Greece to a path of sustained economic growth by improving competitiveness and government finances (ibid. 31, 37).<sup>30</sup>

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<sup>29</sup> This is apparent from, for example, the fact that Greece needed to submit separate LoIs to IMF and to the EU institutions.

<sup>30</sup> While there were multiple adjustments to the programme, as had been the case with the programmes enacted during the East Asian crisis, these adjustments will not be covered further due to the main analysis of this study concentrating on the initial Economic Adjustment Programme.

#### 4.2. Differences Between the Greek and the East Asian crises

While the East Asian economic crisis is the primary point of comparison to the Greece sovereign debt crisis in this study, there are some differences in the characteristics of both the crises and the actors in question, that need to be considered before moving onto the analysis of the IMF supported economic adjustment programme in Greece. The primary differences that have been identified for the purposes of this study are the levels of economic development, the relative culpability for the crisis and the differences in the international framework of the countries suffering from the two crises.

The whole idea of the Washington Consensus was based on the idea of the Washington institutions using their power to pressure *developing countries* into enacting policies that were considered to be ideal, for example Stiglitz (2002, 16) states explicitly that the Consensus was about “the ‘right’ policies for developing countries”. Indeed, the idea of the Washington institutions forcing economic prescriptions on western developed members of the IMF, which Greece is, seemed rather quaint at the time, as the last developed country that had required IMF’s assistance had been United Kingdom in 1976, which was also one of the first countries to suffer from the strict conditionalities that came to represent the Washington Consensus era (Peet 2009, 78–82). Although one of the three East Asian countries, South Korea, was already fairly developed, it had still only just joined the OECD and was largely grouped with the other East Asian countries as the crisis struck.<sup>31</sup> On the other hand, while Greece is clearly a developed country it still came under a huge deal of pressure to initiate far-reaching economic reforms as a consequence of its sovereign debt crisis.<sup>32</sup>

While Greece was a developed country it was put into similar difficult situation as the East Asian countries had due to the weak economic positions it was in caused by the urgency for assistance. Besides this reason there are two other key points, that differ from the East Asian case, and that forced Greece, a developed country, into accepting the conditions set by the IMF, these being firstly the fact that the Greek crisis was by nearly all critics seen to be of Greek doing, and secondly the limited amount sovereignty Greece had as an EU and EMU member, especially in the sphere of economic policymaking. There exists a wide consensus on the first point in academic writings, as described previously in chapter four, that the

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<sup>31</sup> As was the case with Mexico before the Peso crisis, membership in the “developed countries club” did not stop the Washington institutions from insisting on extensive reforms.

<sup>32</sup> For example, in the UNDP Human Development Index Greece is listed to have “very high human development”.

primary cause of the crisis was the due to Greek governmental dishonesty and poor economic policies (see Lane 2012 for a more sympathetic view of Greece actions). This is in sharp contrast to the East Asian crisis where large amount of the observers outside of the IMF concluded that, while the governments in questions had engaged in some poor economic policy making, in the bigger picture they had been economic successes and the primary cause for the economic crisis was the pressure put on the economics by massive outflows of capital after the crisis struck Thailand. Thus, in the case of Greece the demands for radical reforms were based on the view that Greece both needed and deserved the hardship that came with the reform. Relatedly the Greek SBA included a tremendous amount of fiscal consolidation due to the high levels of debt, while the East Asian countries had for the large part been in good fiscal positions, although they had still been required to engage in some austerity policies. Fellow European government were unwilling to seem to act soft towards Greece to their domestic constituencies when much of the public was demanding that the Greeks deal with the problem they themselves had caused (Featherstone 2011, 201–202).

The third significant difference is that Greece, as a member of the EU and the EMU, had willingly surrendered a significant amount of its sovereignty, especially in the sector of monetary policy, and was thus dependent on the European Central Bank to act as its lender of last resort while being unable to improve its international competitiveness via currency depreciation or devaluation. Thus, Greece was far more reliant on its European partners and the European institutions in providing support for it than practically any country at crisis has ever been. If Greece had decided to leave the EMU and the EU during the crisis it would had faced a plummeting value of its new currency which would had exploded the value of foreign denominated, for example Euro, debts, and would had found it hard to find any sources of financing with the economy and government budgets would have contracted significantly (Kouretas & Vlamis 2010, 399).

Greece crisis, thus, in some ways clearly differed from those of the East Asian crises that it will be compared to, especially in the sectors of culpability and policy options available for the country, especially in the realm of monetary policy. However, while Greece was a developed member of the IMF, it was in the end subjected largely to the same kind of treatment as the East Asian countries had been in the late-1990s. Due to this the two cases are sufficiently similar for a comparison of the two to yield results about the lessons the IMF might have learned between the end of the East Asian crisis and the onset of the Greek one.

## 5. Method, Theoretical Framework & Material

The analytical lens chosen for this study is content analysis, a set of methods that has been used in the study of international relations since the 1940s (Pashakhanlou 2017, 447–448). The form of content analysis used in this study is a qualitative content analysis which is in short “a method for systematically describing the meaning of qualitative material [...], done by classifying material as instances of the categories of a coding frame” (Schreier 2012, 1). The key difference of this method compared to most other qualitative methods is the pinpoint accuracy of the lens through which the material is analysed, with the researcher coming to the material with a clear view, through the setting of a research question, of what he wishes to research in the material (Schreier 2012, 3–4; Tuomi & Sarajärvi 2002, 93–94). This question of specificity of the analysis of the material has caused two contradictory views on the nature of the qualitative content analysis, either that the analysis can only strictly deal with contents of the research of material itself, or that the conclusions of the analysis must go beyond the material studied, a distinction related much to the field of study and the material in question (Schreier 2012, 4). In the case of this study the latter view is taken, as not connecting the analysis of the material to the external context would leave important details unconsidered and the analysis bare.

The qualitative contentment analysis is a method that assists in generating understanding from a diverse array of material, everything from documents to visual material, and is characterized by three key points that make the method unique and effective, its systematicity and flexibility and the reduction of data as a part of the process. The first key point, the systematic nature of the method is probably its defining feature in three respects (Schreier 2012, 5). The first facet of systematicity for the method is that the *whole material* is analysed, and for each individual part of the material a decision must be made on where it fits in the coding framework. Generally, it is very important to be systematic in this way as the expectations one brings to the study might otherwise cause important details to be missed (ibid.). The second facet of systematicity is that the *same sequence of steps* must always be taken when using qualitative content analysis, as presented below in Table 2 (ibid.) with comparison to the general qualitative analysis (Tuomi & Sarajärvi 2002, 94).

Steps in Qualitative Content Analysis		Steps in General Qualitative Analysis	
1	Deciding on research question.	I	Make a strong decision on what the key point in the material is.
2	Selecting material.	II a	Go through the material and note the points related to the key point.
3	<b>Building a coding frame.</b>		
4	<b>Dividing material in to units of coding.</b>	II b	Exclude everything else.
5	<b>Trying out coding frame.</b>	II c	Collect the noted points together and out of rest of the material.
6	<b>Evaluating and modifying coding frame.</b>		
7	Main analysis.	III	Classify, thematize or typify the material.
8	Interpreting and presenting findings.	IV	Write conclusions.
Scheier 2012		Tuomi & Sarajärvi 2002	

Table 2: Steps in qualitative content analysis and general qualitative analysis

As can be seen from the views on the steps of the analysis (Schreier 2012, 6) the general guidelines for qualitative content analysis are: making a decision on what one wishes to study, selecting material and studying it with the analytical lens based on the coding frame constructed based on the research question and finally analysing the material itself and creating interpretations on the analysis. It shares similarities with the average qualitative analysis, mainly steps 1-2 and 7-8 but the systematic coding framework, in bold, separates it from other kinds of qualitative research. The final facet of systematicity is related to how the creation a qualitative content analysis framework has the point of going beyond temporary individual understanding of the material and thus, producing consistent results, meaning that the researcher in question at another time, or another researcher, understands the material in the same way as in the initial case. Producing and applying a framework that works consistently provides reliability to the analysis meaning that the data and analysis accurately relates to the research question.

The second key point of the qualitative content analysis is the method's flexibility (Schreier 2012, 7). While the coding framework built needs to be applied in a systematic way, the creation and modification of the framework can be an ongoing process throughout the analysis of the research material. The framework needs to be flexible to be valid meaning that the framework needs to be able to capture all the relevant factors in the material studied. Unlike the application of a quantitative content analysis framework, where standardized coded frames, that assume that representations in the material remain similar no matter the

context or person in question, are used, in the case of qualitative content analysis the specifics of the material are considered important and thus the framework is always at least partially data-driven.

The final key point of the qualitative content analysis is that when applying the method, the amount of data in the research material is reduced (Schreier 2012, 7–8). Unlike in most qualitative analysis, where the researchers come to the material to open it up and to find new things about it, to expand the material beyond its original content, and to create data about data, qualitative content analysis works in the opposite way. This is due to two basic factors of the method, first being that data in the material is simply ignored if it falls outside of the constructed research framework and second being that the categories created in the framework generally are on a higher level of abstraction than the data in the material, and thus specifics of the data will be lost as they are applied to the framework.

There are multiple classifications of types of qualitative content analysis but a basic delineation can be made in consideration of the relationship of the analytical framework to the data one intends to discover in the material. The three main categories for the analysis are inductive, deductive and abductive analysis, that differ in from what sources the categories of the analysis framework are created (see Table 3).

	Inductive Analysis	Deductive Analysis	Abductive Analysis
Source of Categories	The categories of the analysis are derived from the material	The categories of the analysis are derived from pre-existing theory/studies/etc.	The categories of the analysis are derived from both material and theory
Known as, for example	Material-driven analysis (Tuomi & Sarajärvi 2002) Data-driven analysis (Schreier 2012) Conventional analysis (Hsieh & Shannon 2005)	Theory-driven analysis (Tuomi & Sarajärvi 2002) Concept-driven analysis (Schreier 2012) Directed analysis (Hsieh & Shannon 2005)	Theory-directed analysis (Tuomi & Sarajärvi 2002) Combined approach to analysis (Schreier 2012)

*Table 3: Types of qualitative content analysis*

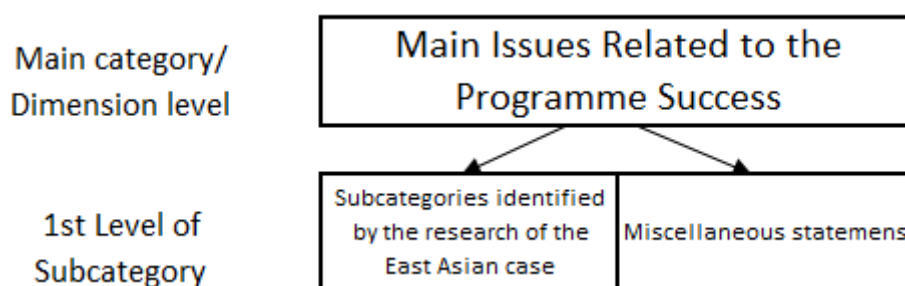
The specific type of qualitative content analysis applied to the analysing the material in this study the concept-driven analysis.<sup>33</sup> In concept-driven analysis the categories, or dimensions, and subcategories of the analytical framework are generated deductively, meaning that they are brought to the material from external sources, in this study from the analysis of the East Asian crisis. As per Schreier (2012, 84–86) the knowledge for generation of the categories can come from, for example, theoretical sources, from logic or even from every day

<sup>33</sup> This study uses the terminology used in the textbook by Margrit Schreier (2012).

experiences. However, as Schreier points out (2012, 89) in every deductive, or inductive research, there always exists elements from the other, and thus this study cannot be considered to be purely deductive, as the data present in the research material will have an effect of the construction of the analytical framework. Hsieh and Shannon (2005, 1281) write on the benefits of using previous research to construct the research framework, that “[e]xisting theory or research can help focus the research question. It can provide predictions about the variables of interest or about the relationships among variables, thus helping to determine the initial coding scheme or relationships between codes.” This view is also shared by the author of this study.

### 5.1. Basics of Constructing a Coding Frame

To utilize qualitative content analysis the researcher must begin by constructing a coding frame, the lens or lenses through which the researcher studies and analyses the material. Figure 1 is an example of single-dimension single-subcategory coding frame that is a simplified version of the coding frame used in this study, meant for the analysis of the frequency of statements in the research material related to programme success with a division into statements related to the factors identified in the East Asian case and statements related to programme success not identified during the analysis of that case. By using this coding frame, the researchers would go through the material and divide it to units of coding that reflect aspects related to the dimension and the subcategories of the coding frame.



*Figure 1: An example of a coding frame*

All coding frameworks utilizing methodology of qualitative content analysis, including the one used in this study, must meet four requirements for the coding frame to achieve its purpose, unidimensionality, mutual exclusiveness, exhaustiveness and saturation (Schreier 2012, 71–78). The first requirement, unidimensionality, means in the strictest sense that the coding framework should consist of only one dimension meaning that the framework should only capture one aspect of the material. In practice in qualitative studies this means that each individual dimension of the framework, a single lens of analysis, should only capture a single

aspect. In the case of the example in the Figure 1 this would mean that additional dimensional levels, for example related to the nature of conditionality, should not overlap with the first dimension. The second requirement of mutual exclusiveness, refers simply to the necessity that a segment of data in the material can only be assigned to one subcategory within an individual dimension. In our example in Figure 1 this would mean that each unit of coding related to the programme success in the analysed material can only be either related to the factors identified in the East Asian case or be related to something else, an easy requirement to fulfil in the case of the example. The third requirement is related to exhaustiveness, meaning that each data point in the material related to a dimension must have a fitting subcategory in the coding frame meaning that any point of data related to the dimension will not be left outside consideration. In the example of Figure 1 the addition of the “Miscellaneous statements” category, a category that is generally added to most coding frames, is to satisfy this requirement of exhaustiveness. The final requirement for coding frame is saturation. Saturation in this instance means that every dimension and every subcategory in the coding frame has a frequency of at least one, meaning that none of the categories is unnecessary for the study. However, while this requirement relates to the conceptual construction of the coding frame, it might not completely relevant for the research goals of a study. In the case of a data-driven coding frame none of the categories can naturally remain empty as they are based on the material itself, while in the case of a concept-driven coding frame the fact that some of the dimensions or subcategories are left empty might be a result worthy of consideration. This means somewhat counterintuitively that in the case of a concept-driven analysis a researcher must include categories that do not satisfy the requirements for saturation to find out that they do not indeed satisfy the requirement.

The last issue related to the coding frame that needs to be considered is how the frame is used to extract information from the material. This is done in a three-step process (Schreier 2012, 134–139). In the first step the material is studied and parts that are considered relevant in relation to the research question of the study are marked for further treatment. In the second step the researcher must decide on the criterion for segmentation, meaning that the relevant parts of the texts must be divided into separate parts. Two main criteria to do this are the formal and thematic criteria. Using a formal criterion means that the researcher will segment the material by, for example, paragraph, sentence or each word. Using a thematic creation means that the researcher himself must be able to identify changes in themes in the text and segment the material by these themes. The issue of identifying themes can be prove



challenging in some cases and requires that the researcher consults the coding frame actively while doing the segmenting. In the final step the segmented material is marked as units of coding, with each belonging to some dimension and subcategory of the coding frame. To assure the validity of the process the researcher, if working alone, should re-code the material at later stage to make sure that his choices in segmenting and coding the material remain constant, as was done in this study.

## 5.2. Coding Frame for the Study

The coding frame of this study has been constructed to answer the question of whether the International Monetary Fund has acknowledged or worked to rectify some of the more criticized parts of its conditional programmes for the SBAs during the East Asian crisis. The coding frame in this case is multi-dimensional and with multiple levels of category, with the dimensions and categories based on some of the previously identified main points of criticism directed towards the IMF<sup>34</sup> and on the IMF's own assessments on the needs for change in its conditional programmes as presented in the analysis of the changes in the 2002 Guidelines on Conditionality compared to original 1979 version.<sup>35</sup> The coding frame was tested against the material and based on flexibility adjusted for better operation. The segmentation of the material into units of coding in this study was done using the thematic criterion, based on the previously identified points that also form the dimensions and subcategories of the study. In the following presentation I will describe the primary dimensions and subcategories of the coding frame.

The first and the most extensive dimension of the coding frame is related to the failures of the IMF programmes. The purpose of the dimension is to study the material for units of coding that include mentions related to chances of success of the IMF's Greek programme in relation to the different subcategories of the dimension. The dimension has nine subcategories. The first four subcategories related to parsimony, clarity, co-ordination and ownership of the programme are based on the primary changes in the 2002 IMF Guidelines

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<sup>34</sup> Note: While the amount of studies critical to the IMF's actions covered in this study was considered satisfactory by the author in creating a representative sample of the kind of criticism the IMF received for its actions during the 1990s, there remains the possibility that in the vast amount of literature written on the IMF's actions some points may have been overlooked. However, as the sources of criticism were generally found in multiple sources, or in sources of high authority, the chance of important issues relating to IMF activities having been left outside the consideration of this study is limited.

<sup>35</sup> It should also be noted that in the abductive process of creating and testing the operability of the coding frame some of the sources of criticism presented in the late-1990s have been left outside the coding frame as they did not fit the context of the Greek case. For example, in the Greek case considerations related to Greece being forced to conform to an external consensus after economic success achieved by following unorthodox policies, as had been considered in the East Asian case by Stiglitz (2002) and, to some extent, by Krugman (2009), are, for obvious reasons, not relevant.

on Conditionality by Babb & Buira (2004) and Best (2007). In short parsimony relates to the programme having as simple conditionality as possible, clarity relates to the clearness of objectives for the success of the programme, co-ordination relates to the cooperation of the IMF with other groups and organizations and ownership relates to the participating country considering the programme its own.

The subcategory about IMF's involvement causing loss of confidence in the country participating in a programme is based on the analysis by Radelet & Sachs (1998b). The fifth subcategory, fiscal austerity as a danger to the success of a programme was identified by the Nobel laureates Krugman (2009) and Stiglitz (2002). The next two subcategories, relating the IMF's ignorance or negligence of the hardship for vulnerable groups and dangers to social cohesion were two factors that Stiglitz (2002) identified as some of the worst errors of the IMF's activities during the East Asian crisis. The final miscellaneous subcategory is included for the sake of ensuring exhaustiveness in the dimension.

The subcategories of the coding frame that will later be applied to the data are presented in Figure 2. In the application of the coding frame the question of whether there exist units of coding within a given subcategory is analysed.

Main issues related to the programme success	
Parsimony	Clarity
Co-ordination	Ownership
IMF causing loss of confidence	Fiscal austerity
Hardship for vulnerable groups	Dangers to social cohesion
Miscellaneous issues	

*Figure 2: First dimension, Programme failures*

The second dimension consists of the units of coding related to the balance of power in the IMF with the key point of who in the end is making the big decisions and how these imbalances in power may affect IMF policy. The first subcategory in this dimension considers whether the material contains any points of data related to the dangers to the IMF independence in the execution of the programme in Greece, in a way analogous to the domineering role the US was seen to have acted during the East Asian by Bello & Guttal (2005), Krugman (2009), Stiglitz (2002) and Wade & Veneroso (1998). The second subcategory considers whether there are units of coding in the research material that contain

information relating to the IMF acting as protector of the lenders to Greece, mainly from western developed countries, as was thought to have happened by Kapur (1998) and Stiglitz (2002) during the East Asian financial crisis. The third subcategory is the miscellaneous category serving the same purpose as earlier to ensure exhaustiveness. The subcategories of the coding frame, which is utilized in a way similar to the one related to the programme successes, is presented in Figure 3.

<b>IMF Balance of power</b>
Threats to IMF independence by powerful outsiders
The IMF as protector of lenders
Miscellaneous issues related to the IMF balance of power

*Figure 3: Second dimension, Balance of power in the IMF*

The third and final dimension of the coding frame used in this study is related to the role of the conditionality. This dimension, with its subcategory of related to whether the coercivity of the conditions set by IMF is present in the material studied is based on the idea that in many cases countries that come for the IMF for assistance have few if any options to accepting IMF conditions as presented by Buira (2003). As Greece was a country in such a position, this dimension aims to find out whether Greece's weak negotiation position is taken into consideration in the material. This dimension also includes a subcategory on miscellaneous issues related to conditionality to satisfy the requirement of exhaustiveness. The subcategories of the coding frame, which is again utilized in a similar way as the ones presented previously, is presented in Figure 4.

<b>Nature of conditionality</b>
Content related to the possible coercivity of conditions
Miscellaneous issues related to the role of conditionality

*Figure 4: Third dimension, Nature of conditionality*

### 5.3. Material of the Study

The material of this study is the executive board meeting minutes (EBMM) during which the IMF made the decision to accept the Greek request for a SBA worth 30 billion USD. The EBMM gives an inside view to what the members of the IMF's most important day-to-day decision-making body felt about the SBA that the Greek authorities had drafted in cooperation with IMF staff in Greece. It is the view of the author that through the analysis of such a key document it is possible to draw conclusions about whether there exists consensus views within this chief decision making body of the IMF in relation to the research question of this study, whether the IMF has learned lessons from the difficulties and criticism it faced during its programmes in the 1990s.

The document, titled "Greece - Request for Stand-By Arrangement; Rule K-1 Report on Breach of Obligations Under Article VIII, Section 5 of the Articles of Agreement" and archived as EBM/10/77, with the length of 107 pages, was judged confidential and was released to the public three years after the meeting. In total 38 executive directors and alternate executive directors participated in the meeting with John Lipsky, the first deputy managing director, as the acting chair.<sup>36</sup> The Meeting was held on May 9, 2010 and lasted for 3 hours and 30 minutes. The agenda of the meeting had two points on it, the Greek request for a SBA and the issue of Greek violation of IMF rules due to its misreporting of statistics. Practically all of the meeting was spent in consideration of the Greek government's request for the SBA worth 30 billion USD, which was to be an extraordinary 3212% of the country's quota, and especially on the nature of the programme presented to the board by the IMF staff, based on the Greek LoI. The EBMM contains a buff document by the Greek alternate executive director for a group of European Mediterranean countries, Mr. Roumeliotis, describing the general features of the Greek SBA request, followed by grey documents by various executive and alternate executive directors describing the views of the countries or groups of countries they represent, followed by a discussion on the topic, questions to and answers from the staff related to the staff report and finally the concluding statements and the declaration that the Greek request has been approved and that the Article VIII violation was deemed to have been remedied by Greek actions so far.<sup>37</sup>

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<sup>36</sup> The regular chairperson for Executive Board meetings would have been the Managing director Dominique Strauss-Kahn, who was absent from this meeting due to other appointments.

<sup>37</sup> Buff document and Grey documents are distributed before the meeting as informal preliminary statements by the chairperson and executive directors.

## 6. The IMF and the First Greek Economic Adjustment Programme

The chief purpose of this study is to find out whether the IMF has changed its viewpoints after the criticism its actions had received during the Washington Consensus era, especially in the aftermath of the East Asian crisis. To do this, in the following chapter, I will analyse the Executive Board Meeting Minutes for the meeting in which the IMF executive board made the decision to assist Greece based on the Greek request and the staff's assessment of the Greek programme. By analysing these opinions, stated in confidence, by the executive board members through a qualitative content analysis, it will be possible for me to reach a conclusion on how the most significant organ of the IMF takes into consideration the issues identified in my research of the East Asian crisis in their consideration of the Greek crisis.

### 6.1. Findings in the IMF Executive Board Minutes on the Greek Programme

In this section of the study the coding frame described earlier will be applied to the material, the EBMM, to systematically inspect the material for factors considered relevant based on the past research. I do this by describing shortly the kind of statements that were made by the participants during the meeting in the various subcategories by presenting examples of statements that reflect the consensus viewpoints in the subcategory, if a consensus can be detected. In the next chapter I will further analyse the statements identified in this chapter as they related to the subcategories of the dimensions of this study.

The analysis will begin with a consideration of the most extensive dimension that related to programme's success and failure followed by the narrower dimensions related to balance of power in the IMF and to the nature of conditionality. In the first dimension, that attempted to answer the question of what is acknowledged as relevant for the success or failure of the programme, all of the subcategories created on the basis of the criticism of the handling of the East Asian programmes were present in the material with the addition of some considerations that were either not identified or were not considered relevant enough to be included in the coding frame. However, as will become apparent, this does not mean that the statements by the IMF's executive board members necessarily reflect that any lessons from the past were learned and in fact often the directors doubled-down on some of the more criticized characteristics of the past programmes.

In the case of parsimony, i.e. that the IMF supported programme should only include the conditions that are absolutely necessary for the success of the programme, there were explicit comments of criticism from two executive board members. The first of these was the

alternate director Mr. Legg from Australia, a country that as was described in the East Asian case was not completely happy with how the IMF managed the crisis, especially in Indonesia. Mr. Legg made an explicit reference to the East Asian crisis, stating that “My views are influenced by the experience from the Asian crisis. That experience pointed to the dangers of overburdening the structural reform agenda with measures which are desirable but may not be essential to programme’s success” (p. 62). Mr. Legg continued his criticism on the lack of parsimony also present in the terms submitted to the EU members of the Troika. He felt that the conditions set by the EU institutions included reforms related to the EU rules Greece had ignored earlier and were included now only because it was an opportune time, which Mr. Legg feared would overburden Greek authorities. Alternate executive director Mr. Toh agreed with Mr. Legg’s analysis that the lessons of the East Asian crisis should be taken seriously to guarantee the programme’s success (p. 67). In response to these worried deputy director of the European department, Mr. Thomsen, assured that both the IMF and EU officials were aware of the risk of overburdening the Greek authorities with extraneous demands (pp. 82–83). He also noted that while there was a great deal of reforms that would in the IMF staff’s view benefit Greece not all of these were included in the actual conditions to avoid overburdening the Greek authorities.

In relation to the subcategory of clarity, i.e. that the subject country should be clear on what exactly is expected of it, there were two comments by executive board members. The first of these, by the executive board members Mr. Legg, Mr. Di Maio and Mr. Thompson, was explicit in their satisfaction that the IMF had learned something of the errors of its Asian programmes and hoping that IMF’s EU partners would also follow the IMF’s lead (p. 18):

In this regard, we welcome the Fund’s focus on ‘macro-critical’ structural benchmarks, a key lesson from the Asian financial crisis, and we encourage our European partners to similarly internalize this lesson in the implementation of the structural conditionality underpinning their MoU with the Greek authorities.

The second statement related to programme’s clarity, by the directors Mr. Rutayisire, was of critical and more specific in nature. He felt that in the case of Greece’s restructuring of inefficient public enterprises and promoting private sector activity the lack of clear performance criterion in would lessen the chances for the success of the programme (p. 33).

In the third subcategory of co-ordination, i.e. that the IMF should closely cooperate with other global and international actors in its crisis management, there was significant amount of discussion due to the nature of the Greek funding package coming from both IMF and EU sources. In principle most of the comments felt that the cooperation between the IMF and the EU institutions would improve the possibility of the programme succeeding. This is, for

example, reflected in the summing statement of the meeting by the acting chairman Mr. Lipsky, stating that “Directors underscored the importance of continued close cooperation between the IMF, the European Commission, and the European Central Bank (ECB), including with respect to communication and the provision of technical assistance” (pp. 104–105). However, there were two sources of doubt with regards to the cooperation with the EU institutions. The first of these was the concern expressed by multiple directors that the IMF’s operational independence could be threatened by the close cooperation with the EU, more of which in the consideration of statements related to the second dimension’s subcategory related to threats to IMF independence.<sup>38</sup> The second of these related to the deficiencies in coordination between the programmes supported by the IMF and by its European partners, and by the dangers of lack of cohesiveness and coordination in communications that could cause dangers to market confidence was raised by the executive board members Mr. Virmani and Mr. Patra (p. 15).

The fourth subcategory, the question of ownership of the programme, i.e. that the Greek government and population need to feel that it is “their” programme, was widely considered but in a rather superficial manner. Practically all executive directors who made comments included declarations about the Greek governments commitments to the programme, often as a reasoning for the support given. For example, the following statement by Mr. Lipsky, the acting chair, is indicative of the feelings of most of the Executive Board members (p. 103):

The determination of the Greek authorities to pursue this course is crystal-clear, which is another reason why the staff and now the Board have been willing to provide an unprecedented level of support. Let us extend our best wishes to the Greek authorities and the Greek people for success in this most difficult undertaking. We all have a collective interest in their success.

Even executive board members who were sceptical of the programme would, such as Mr. Pereira of Argentina, felt that they needed to support the programme that appeared to have such strong support in Greece, stating “we do believe that ‘ownership’ is a major feature of any arrangement. Thus, we concur with the granting of the request for a Stand-By Arrangement as requested by the Greek authorities” (p. 52).

The fifth subcategory, related to IMF involvement causing loss of confidence, was also considered by a handful of executive board members, mostly in the context of the danger to

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<sup>38</sup> In construing a coding frame, one piece of code, such as a comment related to the IMF’s independence, should not fit too categories or subcategories *within* a dimension, thus the fact that there is some overlap between the subcategories of “co-ordination” and “threats to IMF Independence by Powerful Outsiders” does not pose an issue to the study, as they are subcategories to different dimensions of study.

the programme cause by the Greek government not applying for IMF assistance sooner out of fear for market reaction. The executive board members Mr. Nogueira Batista, Mr. Fachada, and Ms. Maia put this view very succinctly while including piercing criticism of past activities of the IMF's developed members in relation to the topic stating that (pp. 47–48):

Had the decision to come to the Fund been taken earlier, the Programme would have started in less adverse circumstances. The delay led to unnecessary deterioration of the economic and social conditions in the country as well as a loss of confidence in the euro area institutions that may be difficult to reverse. Greece proved, once again, that the stigma associated to Fund support has not been overcome. There is a certain irony in this. It would not be difficult to find a great number of admonitions from European authorities and Board members, directed at developing countries, concerning the irrationality of postponing requests for Fund support

Besides the statement above, two other statements, by Mr. Virmani and Mr. Patra and by Mr. Itam included comments related to worries that the stigma of requesting the IMF's assistance had caused Greece to apply for assistance later than it should had (p. 16). However, the Director of the European Department, Mr. Thomsen, presented an opposing view to this topic. In his view Greece did not apply earlier because the Greek authorities felt that the reforms they had already enacted would be sufficient, and because there was a believe that the assurance by the Greece's European partners would be enough. As Mr. Thomsen put it (p. 100):

Let me just say that, from the start, the [Greek] Prime Minister was very explicit that, if it was found to be necessary, he would have no problem with involving the IMF. From the start, the possibility of Greece involving the IMF was on the table. So, that is in reply to the question on the stigma.

The question of fiscal austerity, the sixth subcategory, i.e. whether contractionary fiscal policy by the government would be beneficial, was naturally covered very thoroughly as it was one of the key parts of the programme. What could be considered the mainstream view, which was the view included in the programme, was that the Greek government needed to cut its fiscal spending significantly at a very quick pace to restore market confidence and to lessen the debt burden in the middle-to-long term. The comments presented in the grey document by executive board members Mr. Lundsager and Mr. Meyer is a good representation of the majority view (p. 34):

The 11.1 percent of GDP in fiscal measures proposed, on top of the 5.2 percent of GDP in austerity measures already announced, are ambitious yet necessary. Spread out over four years and balanced across revenues, expenditures and structural reforms, the proposals are a dramatic swing in the right direction.



However, not all executive board members shared this view. There were two sources of critical comments related to austerity. The first, and less critical, one was presented by, for example, executive board members Mr. Nogueira Batista, Mr. Fachada, and Ms. Maia in their grey document. While not outright critical of austerity measure the members, who shared this view, felt that the IMF's projections about the benefits of Greek enacting hard fiscal austerity policies were most likely too optimistic and thus the success of the programme would be at risk (p. 49):

In an especially Panglossian passage of the report, staff expresses the expectation that growth will follow a V-shaped pattern (paragraph 12). We fear that growth may follow an L-shaped pattern, with a very sharp contraction of GDP in 2010 and 2011 and negligible recovery thereafter.

The second source of criticism was from those who felt that austerity altogether was a bad idea. Executive Board member Mr. Pereira of Argentina was the most ardent proponent of this view, partly due to the hardships Argentina had suffered during the IMF programme it had partaken in in the early 2000s. In the view of Mr. Pereira, and others who agreed with him, the austerity policies were more likely to make the crisis worse. As Mr. Pereira put it (p. 54):

Harsh lessons from our own past crises are hard to forget. In 2001, somewhat similar policies were proposed by the Fund in Argentina. Its catastrophic consequences are well known. Today, other countries are involved, but the Fund's policies remain the same. Beyond economic theories, there is an undisputable reality that cannot be contested: a debt that cannot be paid will not be paid without a strong process of sustainable growth.

The staff representative from the European Department, Mr. Traa, however made it clear that the architects of the programme were aware of some of the issues related to austerity policies, although more in line with the issues presented by Mr. Nogueira Batista, Mr. Fachada, and Ms. Maia than of those presented by Mr. Pereira (pp. 82–83). In fact, Mr. Traa explained that the staff felt that the austerity measures included in the programme in an ideal case would had been even harsher so that the contraction of the economy would not risk the accomplishing of the debt related targets of the programme, which are generally evaluated in terms of ratio of the gross domestic product.

There were a number of mentions related to the seventh subcategory, the danger to vulnerable groups in Greece, included in the statements presented in the meeting. These mentions were related to the executive board members and other participants expressing their satisfaction that the programme had taken into consideration the protection of those most vulnerable in Greek society. For example, the executive board member Mr. Rutayisire stated that “[w]e are also encouraged to note that the authorities aimed at protecting

vulnerable households in spite of the unprecedented seize of the fiscal adjustment” (p. 32). The summing statement by the acting chairman Mr. Lipsky also concluded that “[t]he authorities’ efforts to ensure a fair burden sharing, particularly by protecting low wage and pension earners, are critical to program success” (p. 105).

There were also some comments related to the eight subcategories, the role of social cohesion, i.e. that the programme should not cause undue social unrest. Two statements presented in the meeting included consideration of the dangers of lack of social cohesion for the success of the programme. For example, the executive board member Mr. Itam made clear his concern in his grey document that stated, “[w]ith growing popular resistance to the austerity measures, as manifested by widespread strikes and protests with the propensity of undermining governance, the authorities may be hamstrung in pursuing further fiscal tightening” (p. 19). The deputy director for European Department Mr. Thomsen responded to this issue that the government was trying to maintain social cohesion by for example new tax measures (p. 81):

As for the tax measures, the authorities are trying to exempt lower incomes or reduce the burden on lower incomes. It is clear to me that this will help bolster political support for the Programme and reduce social tensions associated with the Programme

The final ninth subcategory of miscellaneous issued had the highest frequency and included consideration related to the dimension not identified from the East Asian case and thus not having their individual subcategories. Although this subcategory isn’t of too great interest due to it not being directly related to the research question of this study, a short description is beneficial for the sake of completeness. Two issues rose above others in this subcategory, both of which are familiar from some of the Washington Consensus era literature but were not of particular importance during the East Asian case. The first of these is the issue of debt restructuring, which was widely used during the Latin American debt crisis. Multiple executive board members included considerations of debt restructuring, for example Mr. Shaalan and Ms. Choueiri who stated that “[t]he market reaction since the announcement of the IMF/EU assistance package points to increasing doubts among market participants on whether Greece can stabilize its debt without a restructuring” (pp. 12–13). However, the acting chairman Mr. Lipsky pointed out that the staff’s view was that restructuring would not had helped Greece as the biggest issue had been high levels of fiscal deficit (pp. 101–102). The second issue related to the consideration of structural reforms. In the East Asian case structural reforms, while not always considered relevant for the programmes, had at least been for the most part considered to have had been of positive nature. The executive

board views on the Greek case were fairly similar with structural reforms included in the programme considered to be fairly benign, with the biggest issue related to these having to do with parsimony as was discussed above.

The results related the presence of units of coding in the different subcategories of the dimension related to the programme success, as was described above, have been collected into Figure 5. As can be seen, there were mentions related to each of the subcategories in the studied material, possibly reflecting their importance for the IMF executive board in their consideration of the Greek SBA. A more in-depth consideration of this questions follows in the analysis of the findings presented above.

Main issues related to the programme success	
Parsimony	Present
Clarity	Present
Co-ordination	Present
Ownership	Present
IMF Causing Loss of Confidence	Present
Fiscal Austerity	Present
Hardship for Vulnerable Groups	Present
Dangers to Social Cohesion	Present
Miscellaneous Issues	Present

*Figure 5: Dimension 1 findings in the EBMM*

The second dimension, issues relating to balance of power in the IMF, is meant to study whether the participants in the executive board meeting felt that there were problems related to power imbalance in the IMF in the execution of the Greek programme. This was investigated through three subcategories, threats to IMF independence, the IMF bailing out Greek lenders and the miscellaneous category. As was the case with the previous dimension all the subcategories in this dimension were also populated.

The first subcategory, threats to the independence of the IMF, was based on the issues related to the role of the United States during the East Asian crisis. As the IMF was in close cooperation with EU institutions during the Greek crisis, consideration related to this topic were frequent. The widely shared view that the cooperation with EU institutions might be a danger to the IMF independence was presented well by the director Mr. Rutayisire (p. 32):

We also note the commitment in the program to tap resources from the European Union and the Fund in a 3 to 1 ratio. We wonder whether this arrangement is consistent with the Fund's Board repeated insistence to maintain the Fund's institutional independence in continuing to proceed with its own financial assistance to its members according to standards laid down in its Articles of Agreement and decisions adopted by the Board

Most of those concerned about the issue mirrored Mr. Rutayisire's view that the entanglement of the IMF's and EU's programmes could lead to IMF's hands being tied should the two parties have differences of opinion on whether the Greeks had been following the conditions of the programme successfully. The deputy director of the European Department Mr. Thomsen responded to the concerns presented by the executive board members, stating that the IMF will maintain its independence and make its own decisions in relation to the Greek programme and that should the IMF feel that the Greece government had not been accomplishing what it should had the IMF could unilaterally stop funding Greece regardless of what the other members of the Troika felt about the issue (p. 77).

The second subcategory, fears that the IMF financing would be used to bail out financial institutions from developed countries is a criticism that the IMF has faced multiple times during the Washington Consensus era, including in the East Asian case. In the Greek case some executive board members feared that the money Greece would receive from the IMF could be used in this fashion. Executive board members Mr. Nogueira Batista, Mr. Fachada, and Ms. Maia summarize this view well in their grey document (p. 49):

As it stands, the programs risks substituting private for official financing. In other and starker words, it may be seen not as a rescue of Greece, which will have to undergo a wrenching adjustment, but as a bailout of Greece's private debt holders, mainly European financial institutions. We would very much welcome that, as part of the programme, the country's external creditors explicitly commit to sustaining a minimum level of exposure.

Multiple European executive directors made statements relating to this issue with regards to the financial institutions headquartered in their countries. In the case of Germany Mr. Stein expressed that German institutions had expressed that they would maintain their exposure, though on an informal and voluntary basis, meaning that the IMF's money would not simply substitute German private money (pp 60–61). Mr. Fayolle of France (p. 68) and Mr. Bakker of Netherlands (p. 71) made statements related to the willingness of banks based in their countries to maintain their exposure in Greece on a more certain basis than the German executive director. The staff representative from the Strategy, Policy, and Review Department, Mr. Mühleisen, responded to this issue in two ways (p. 87). Firstly, according to him the view of the IMF staff is that the financing from the IMF will go to pay for current account deficits, even if he concedes that with money being fungible this is not absolutely

guaranteed. Secondly, the purpose of the plan is for Greece to regain market confidence and thus with the private investors willingly returning to Greece due to the successful execution of the programme and thus, having to worry about bailing out foreign banks is irrelevant in relation to the programme's success. In the third, miscellaneous category, only one unit of code was found in the material. This was a statement by executive board member Mr. Pereira about the structural imbalance of power in IMF's activities, as the IMF's position had been to only discipline developing economies, and thus the Greek issue was not handle with the necessary speed (p. 53).

As was the case in the previous dimension, also in the dimension of IMF's Balance of power units of coding were present in each of the subcategories related to the dimension in the statements made during the executive board meeting, with the results collected in Figure 6. As previously, a more in-depth consideration of this questions will follow in the analysis section.

IMF Balance of power	
Threats to IMF independence by powerful outsiders	Present
The IMF as protector of lenders	Present
Miscellaneous issues related to the IMF balance of power	Present

*Figure 6: Dimension 2 findings in the EBMM*

The third dimension is related to the nature of conditionality. The chief purpose of this dimension was included in its first subcategory, content related to possibility of coercivity of conditions, and was meant to identify whether the IMF's executive board in any way acknowledged the coercive nature of conditionality and what this would mean for the fairness of the programme. The second subcategory, on whether other consideration of conditionality was found in the study, had no identified units of code in the material.

In the first subcategory related to coercivity of conditions there were some implicit considerations of the issue, although none of the statements were critical of the coercive nature of conditionality in the programme. These statements related to the views of the executive board members that while the programme would be painful for the Greeks it was all they had. A good example of this view was submitted by Mr. Callesen (p. 67):

Let me just add to that also that we firmly believe that the hardship referred to, which is now faced by the Greek population would, without doubt, be much higher in any other attempt to solve this problem than the one we are dealing with here. We should keep that in mind when we are discussing the hardship. This is actually the least bad way of addressing all these issues.

The key points of this view, that the Greek populace must accept the programme or suffer even further hardship, were echoed in two additional statements in the grey document by the executive board members Mr. Stein, Mr. Kiekens, Mr. Guzmán, Mr. Fayolle, Mr. Bakker, and Mr. Callesen, and in the in the grey document by the executive board member Mr. Al Nassar. On the other hand, in this analysis of the EBMM no miscellaneous statements related to the nature of conditionality could be identified. Figure 7 presents the presence of units of coding in the two subcategories of the dimension related to the nature of conditionality with further analysis in the next section.

Nature of conditionality	
Statements related to the possible coercivity of conditions	Present
Miscellaneous issues related to the role of conditionality	Not Present

*Figure 7: Dimension 3 findings in the EBMM*

## 6.2. Analysis of the Findings

The actual analysis of the material inspected with the use of the coding frame will work to answer the research question of this study on whether IMF has reconsidered its policies after the lessons learned from the criticism IMF received during its crisis management initiatives during the 1990s, especially during the East Asian financial crisis. If the IMF had radically changed its policies since the 1990s, this should be reflected in the findings on the decision-making by the IMF executive board during the Greek crisis. To explore whether this hypothesis holds I will go through the results of the coding frame analysing and reflecting the findings in each subcategory in relation to the research that inspired the given subcategory.

The first subcategory of the first dimension, parsimony, was generally in the past studies related to how the IMF programmes had become overburdened by conditions. This had caused significant difficulties for the countries, which received IMF assistance, in their attempts to successfully complete the conditions of the programmes set by the IMF. The issue of the decreasing historical parsimony was analysed by Babb & Buira (2004), while

Krugman (2009) commented on the problem in the context of the East Asian case. The IMF had acknowledged this problem and attempted to rectify the issue when it issued its new 2002 Guidelines on Conditionality. The analysis related to the document (Best 2007; Buira 2003), found that while the new document itself did not present a radical change to the former policy, there was hope that it would signal to the IMF staff the importance of parsimony in crafting of the conditions for the future. In the EBMM this issue was clearly raised by some, but relatively few, participants, with four units of coding out of 85 in the material.<sup>39</sup> Interestingly all of these statements, both by executive board members and by the staff, took explicitly into considerations the issues caused by lack of parsimony during the East Asian crisis. Thus, in this subcategory it would appear that the IMF has learned some lessons from the mistakes committed during the East Asian crisis, and considers parsimony to be of significance for programme success, although the scarcity of these statements raises the question of the magnitude of IMF's dedication to parsimony.

The second subcategory of the first dimension, clarity, was chiefly included in this study due to importance put on it by the IMF in its post-East Asia review on how to improve the conditionality of its programmes, as described in the Guidelines on Conditionality and by Buira (2003) and Best (2007). Clarity was the least frequently present subcategory in this dimension with only two units of coding out of 141, out of which only one underlined the importance of clarity to the success of the programme itself. From how the participants in the meeting addressed, or rather did not address, this issue, it would appear that the most important decision-making body of the IMF does not consider this issue to be of the highest importance in their consideration related to the success of the programme. However, at the very least the issue was raised twice during the meeting, implying that the lessons of the past might not have been completely ignored.

Issues related to the third subcategory of the first dimension, co-ordination, were not something that was identified as something of greatest importance in the considerations of criticism of the IMF activities during the East Asian crisis but it was nevertheless something that the IMF itself had identified as a point of improvement in the aftermath of the crises in the 1990s and early 2000s, as becomes apparent from the importance put on the issue in the new Guidelines on Conditionality. In the Greek case the issue of co-ordination was naturally an important topic due to the cooperation the IMF was engaged in with the EU institutions. Out of the subcategories related to the past experiences co-ordination was the one with third

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<sup>39</sup> 85 being the total frequency of units of coding in the eight subcategories identified on the basis of earlier research. Total frequency including the miscellaneous category was 141.

highest frequency, eleven out of 85 units of coding.<sup>40</sup> As described in the findings in the EBMM, the executive board members largely emphasized the importance of close coordination with the European authorities both in providing financing and in increasing the chances of success for the programme. They were also well aware of the risks related to cooperation, insofar that the potential for contradictory communications or conditions from the parties could diminish the programme's chances for success. Thus, in this subcategory it seems that the IMF has taken some lessons from its past, although the nature of the crisis, with the country requesting aid being an EU member, of course makes the issue of coordination a topic that should be expected to occur in the discussion.

The fourth subcategory of the first dimension, ownership, was an area in which IMF conditionality would require the most improvement as per the new Guidelines for Conditionality, and it would appear, at least based on the EBMM, that the IMF has taken this consideration to heart. Out of the subcategories related to previous research this subcategory had the largest frequency of units of coding, 26 out of 85. These statements were for the most part the meeting participants emphasizing the importance of the Greek government's, and in some cases Greek society's, commitment to achieving the objects of the programme. As described above, even executive board members who otherwise objected to the programme, such as Argentinian Mr. Pereira, were willing to support it due to the strong ownership they felt Greek government demonstrated in their request for the SBA. Thus, at least on the level of IMF executive board discussion, the importance of programme ownership to the success of the programme seems to have been taken seriously into consideration.

The fifth subcategory of the first dimension, the problems caused by the fear of loss of market confidence caused by IMF participation, or as Radelet & Sachs put it in their analysis of IMF activity in East Asia (1998, 61) "[the IMF's] arrival gives all the confidence of seeing an ambulance outside one's door." This issue was considered by some participants in the meeting, in five out of 85 units of coding. As described in the findings, some of the executive board members indicated that they were worried about the stigma of IMF assistance causing the Greek government applying for aid too late. However, the staff made a strong response to this, pointing out that the Greek government had never ruled out IMF assistance due to fears of stigmatization. From these statements it appears that the IMF, both its leadership and its staff, have taken into consideration the issue, and that at least by the staff assessment

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<sup>40</sup> Not including the six units of coding related to the IMF's independence that were included in the second dimension in this study.



it was not a cause of trouble in the case of the Greek assistance programme. Thus, while predicting exactly how markets react to different issues is hardly easy, it at least appears that the IMF has at least started to take the issue into considerations, as it did in the Greek case.

The sixth subcategory of the first dimension, austerity, was based on the strong criticism during the East Asian case especially by the two economic heavyweights, Joseph Stiglitz and Paul Krugman, who argued that the IMF's conditions related to austerity went against everything mainstream economics would prescribe to a country in economic downturn and that procyclical fiscal policy of maintaining austerity during an economic downturn would only make the downturn worse. In the Greek case it is not surprising that austerity was one of the subcategories with the highest frequency of units of coding, 25 out of 85. However, what might be surprising is that these units of coding were divided fairly evenly between the ones that considered austerity to be positive, 12, and those that considered it to be negative, 13. As a key goal of the programme was for Greece to decrease its fiscal deficit, the majority of the executive board members were strongly in favour of these austerity measures. However, as described to some extent in the chapter about findings, there were some members who were highly critical of this procyclical economic policy, on which the programme was based. The Argentinian executive director was especially critical, as he felt that the IMF was repeating the mistakes that had been made in Argentina in 2002 by including tough fiscal austerity policy in the programme. Thus, in this subcategory, the conclusion on whether the IMF has learned from the mistakes of the past is for the most part that it has not. Most of the executive board members and the IMF staff made strong statements in support of austerity, considering austerity to be absolutely necessary for the success of the programme. This creates an interesting analogy to the East Asian case, where the IMF also initially supported hard austerity policies, with some executive board opposition, but was forced to reverse its position in just few years to considering that fiscal stimulus was actually beneficial to the East Asian countries.

During the East Asian crisis vulnerable groups, especially in Indonesia, suffered greatly due to the austerity programmes that included cuts to subsidies. Thus, it is not surprising that in the Greek case considerations related to the seventh subcategory of the first dimension, danger to vulnerable groups, were included by the participants, in eight out of the identified 85 units of coding. These comments, both from executive directors and by staff members, were related to the satisfaction these participants felt that the Greek programme took the dangers of austerity policies to those most vulnerable in the Greek society very seriously. These considerations seem to imply that there has been some reconsideration of the dangers

to the most vulnerable groups since the East Asian crisis led to significant amount of human suffering.

The eighth subcategory of the first dimension, social cohesion, was based on the issues caused by IMF programmes in East Asia to the social stability that led to, for example, the violent overthrowing of the authoritarian president Suharto in Indonesia, was considered to some extent in the Executive Board meeting on Greece. The frequency of these units of coding was four out of 85, a relatively minor portion. As described in the findings, two statements by the Executive Board members included considerations of dangers of the weakening social cohesion to the successful implementation of the reform programme, as it appeared at the time that wide sections in the society that would be hit hard by the reforms were not willing to accept losses to their situations willingly. The staff made a point of noting that some of the programme had been designed in such a way to minimize dangers to social cohesion, by minimizing the effects of tax increases on those with lower incomes. Thus, it seems that the IMF in its considerations on whether to accept the assistance to Greece, took to some extent explicitly into consideration the risks to social cohesion caused by the crisis, indicating some improvement on part performance. However, considering the scale of the programme these considerations feel rather limited.

The relative amounts of the frequencies of the different subcategories in the first dimensions are presented in a treemap in Figure 8. As can be seen from the treemap ownership was by far the most prominent subcategory present in the EBMM. With fiscal austerity being divided nearly evenly between those units of coding that supported and those that opposed it, it ends up being roughly on equal level with issues related to co-ordination and hardship for vulnerable groups. On the other hand, issues related to loss of confidence, parsimony, social cohesion and clarity were not considered to be as prominent to the success of the programme according to this analysis of frequencies of the subcategories in the EBMM.

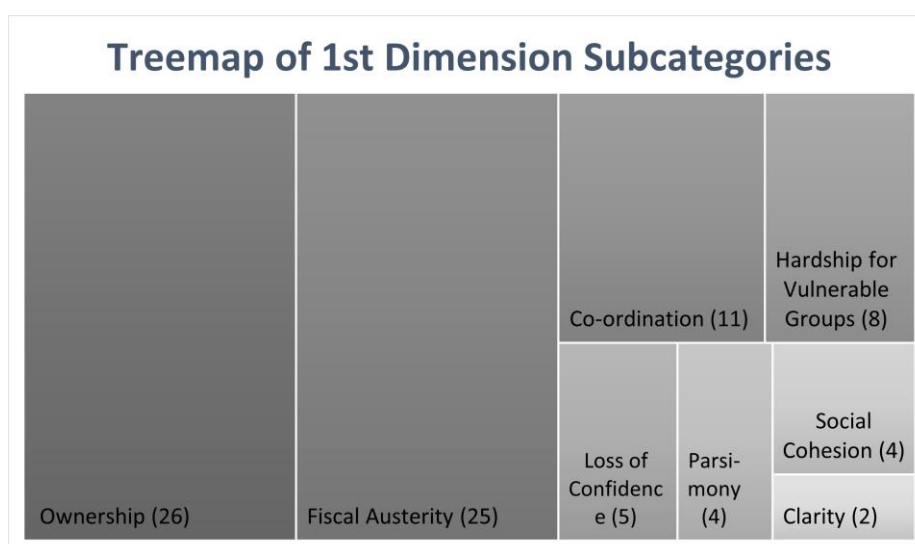


Figure 8: Treemap of dimension 1 subcategories

In the first subcategory in the second dimension, threats to IMF independence, which was based on the critique IMF received for the role that United States played during the East Asian crisis, consideration related to the risks to the IMF's independence of decision making due to the cooperation with the EU institutions were present, as described in the part about the findings. In total there were six identified units of coding in this category, out of 21 in the dimension.<sup>41</sup> Several Board members were zealous in their insistence that the IMF must retain its independence in the implementation of the programme and financial assistance, no matter what the EU views are. In response the staff made it clear that the IMF intended to remain independent of whatever decisions EU was going to make. Thus, at least as indicated in the material, it seems that the IMF is guarding its independence more strictly than it did during the East Asian case. Again, the specifics of the case may well be one of the causes for this, as in East Asia the US was a lender external to the crisis countries while in the Greek case Greece is part of the EU institutions that are providing it support, and thus the considerations of independence are even more relevant, so that the EU does not decide on the provision of IMF funding effectively to itself.

The second subcategory of the second dimension, concern about bailouts, is based on the views that the IMF had often worked to secure the interests of external lenders in countries that required IMF assistance, as described by Kapur (1998) and Stiglitz (2002) in the East Asian case. In the analysis of the Minutes of the Executive Board Meeting I identified 15 units of coding out of the 21 that were related to this subcategory. As described in the findings, several executive board members were worried about the risks of IMF funding

<sup>41</sup> 21 being the number of units of coding not including the one unit in miscellaneous category.

simply supplanting private funding in Greece, releasing private funders from their exposure in the country that posed high risks to its creditors, including the IMF. The IMF staff attempted to reassure that the funding would go to alleviating issues related to balance of payment imbalances, but were forced to admit that due to the fungibility of money it could not be guaranteed that some of the money would not supplant private lenders positions. Some of the Board members from countries with banks with high exposures, Germany, France and Netherlands, also made statements promising that their banks would maintain their exposure at least for the duration of the programme. From these statements it appears that IMF is taking the issue of the financing it provides to Greece finding its way to bailing out lenders outside Greece seriously.

The final subcategory of the final third dimension, coercivity of conditionality, is related to view that often enough the countries coming to the IMF are practically forced to accept conditions. There were total of three units of coding, all of the units identified in its dimension, that considered this issue. However, while all the units of code identified contained considerations of Greece being practically forced to accept the programme, none of the consideration considered it to be problematic that Greece was forced to accept a difficult programme. Thus, in this subcategory it appears that the IMF, based on the discussion of the executive board, does not consider it to be problematic that members coming for assistance are made to decide between “the IMF’s way or the highway”.

From analysing all these subcategories, it becomes clear that whether or not the IMF has learned any lessons from its past mistakes is rather doubtful (see Figure 9). In some important subcategories, such as those related to the ownership of the programme, issues of dangers with coordination with external parties and protection of those most vulnerable in the society experiencing an economic crisis, the IMF’s executive board members made a significant amount of strong statements, which would imply that they do not wish to repeat the mistakes of the past related to these subcategories. On the other hand, it appears that the majority of the IMF executive directors have not considered all the lessons of the past. This is especially apparent in the subcategory related to hard fiscal austerity. Large majority of the Directors that made statements related to austerity were highly supportive of it, with the one vocal exception, the Director from Argentina, from a country that had first-hand felt the downsides of IMF programmes in 2002, whose statements caused the subcategory to split fairly evenly.

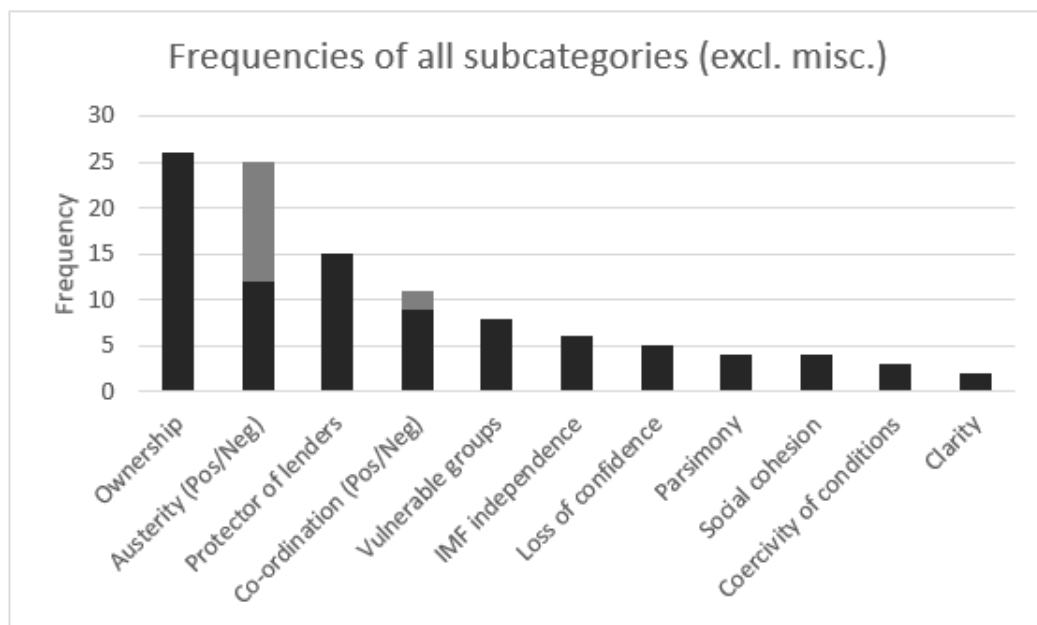


Figure 9: Frequencies of all subcategories

## 7. Did the IMF Learn from its Past Mistakes?

The purpose of this study was to answer the question of whether the International Monetary Fund has learned any lessons from both the criticism it received and from its self-evaluation after the troubled programmes it had prescribed during the Washington Consensus era. This study took especially into consideration the case of the East Asian financial crisis during which three East Asian countries, Thailand, Indonesia and South Korea, had their crises aggravated by the conditions set to the IMF support programmes. To answer the research question, I analysed the decision-making by the IMF executive board through the lens of the Washington Consensus era IMF during their decision to grant the Greek request for a Stand-By Arrangement in 2010 in the aftermath of the beginning of the Greek sovereign debt crisis. The results of this study were that for the most part the IMF seems to have been repeating the errors of its past, especially with the requirement for the Greek government to engage in hard fiscal austerity.

The IMF has undoubtedly had an extremely important role in the maintenance of global financial stability ever since its founding and especially since the acceleration of financial globalization. The wild financial flows caused by the global financial system have, since the 1980s, has led to a large number of countries, especially in the developing world, requiring IMF support as they faced acute balance of payment imbalances. However, as described in this work, the IMF has come under heavy criticism for the conditions it had set for many of these programmes throughout the Washington Consensus era and especially in the case of the assistance programmes to the three East Asian “miracle economies”. The key points of this criticism, as identified in this study, were related to how IMF actions had worsened the situation in the crisis countries, how the nature of the conditionality itself was unfair and how the IMF was considered to unfairly be biased towards rich developed countries. The actions related to IMF’s conditions causing the failures of its programmes covered issues such as the imposing of counterproductive austerity, the ignoring of vulnerable groups and the dangers to social cohesion. The issue of conditionality was related to how countries participating in IMF programmes rarely had any options but to accept any conditions given. The issue related to IMF’s bias considered the dangers of powerful external parties influencing IMF policy and that the IMF was seen to have protected the financial interests of institutions from the developed world. Due to these characteristics of the IMF’s actions the critics at the time thought that the IMF had abandoned its original purpose of assisting its member countries during crises, due to the power of the Washington Consensus over the IMF.

During the first decade of the 2000s the IMF initiated several reforms with the intention of creation of programmes with higher chances of success due to the difficulties and criticism it had received for its earlier programmes. The reforms related to the conditionality with the goal to increase the chances of the success of any future programmes were related to four facets of IMF programmes and were best expressed in the 2002 reform to the IMF guiding document Guidelines on Conditionality. These facets were parsimony, the simplicity of the programmes, clarity, the clearness of the conditions, co-ordination, the underlining of the important of IMF cooperation with other organizations, and ownership, that the country executing the programme is able to consider the programme its own.

In this study I took into consideration both the criticism the IMF received and the needs for reform IMF itself identified in the 2000s in my construction of the framework for analysing whether the IMF had learned from its past errors during the Greek case. In the analysis of the statements by the executive directors and, their alternates and IMF staff during the meeting that approved Greek request for a SBA I reached the conclusion that at best the answer to the research question is an ambiguous yes. The IMF directors underlined the importance of some of the issues that had been considered problematic in the past, especially issues related to programme ownership, question of avoiding bailing out foreign creditors, issues of co-ordination and the protection of vulnerable groups. On the other hand, in some of the categories, such as clarity, parsimony and dangers to social cohesion, there was a relatively small amount of considerations. However, the biggest issue that would imply that the IMF has not taken into considerations all of the lessons from the programme failures in the East Asia was the issue related to austerity. While there was a significant amount of discussion related to austerity, the majority of the executive board members were strongly in favour of it, with few voices of dissent.

From these results it appears that there is still learning to be done by the IMF if it wishes to avoid the pitfalls of the past. It is not surprising that during the First Greek Economic Adjustment Programme the IMF has again come under criticism by those who feel that the conditions it has set have been counterproductive for the success of the programme. A prominent critic of the conditions IMF set for the Greek SBA has been Paul Krugman, one of the prominent critics of the IMF austerity policies during the East Asian crisis. In his blog in the New York Times, Krugman made a direct reference to the IMF repeating its failures of the East Asian crisis in its executions of the Greek support programme, stating that “[a]nd the IMF, after initially pushing austerity policies in Asia, backed off and reversed course;

this time around the Troika has been relentless, learning nothing from experience” (Krugman 2013).

However, one should be cautious of drawing too drastic conclusion from the results of this study due to the limited amount of material used for the analysis of the changes in IMF *modus operandi*. While it is my belief that by researching the statements made by the IMF executive directors and staff during board meetings, which are both confidential and include some of the most important decision-making in the IMF, a researcher is able to discover the kind of views that are prevalent or share a wide consensus within the IMF, the analysis of an individual document is not necessarily enough to draw strong conclusions even about what the consensus within the executive board, or the IMF, is. In the case of this study the material was limited to minutes of a single meeting due to both limitations in the scope of the study and due to limitations in access to material, as significant part of the EBMMs related to the first SBA to Greece have not yet been declassified. Thus, an interesting avenue for further research of the first Greek programme could be the inclusion of a larger amount of the minutes of meetings for a larger sample, when and if they are declassified by the IMF. Another avenue for research could be repeating this study in consideration of the case of the 2012 Second Greek Economic Adjustment Programme, to see whether in the second iteration of the programme the IMF executive board has taken some of the issues examined in this study, especially austerity, into consideration.

Considering the findings of this study and the renewed criticism IMF has received it is also not surprising that the First Economic Adjustment Programme ended up failing to meet its goals and was supplanted by the Second Economic Adjustment Programme in 2012, well before the first programme had run its course. This programme on the IMF's end included an Extended Funds Facility arrangement, meant for longer-term support. In its evaluation of the reasons for failure of the first programme (IMF 2013) the IMF admitted that its expectations of the Greek economy being able to grow under the conditions of the programme was unrealistic. A significant change in the second programme was the lessening of the requirement for fiscal discipline due to a much deeper recession than had been anticipated (IMF 2012). In this the programme largely mirrored the IMF programmes during the East Asian Crisis that also included hard austerity measures that were eventually mitigated after they were found counter-productive to the success of the programme.



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